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MANAGING YOUR BUSINESS



PHOTO: CHUCK KNEYSE—BLACK STAR

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Cover Design: Hans A. Baum
Cover Photos (from left): T. Michael Keza; Egghead, Inc.; Charles Moore—Black Star

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PHOTO: JAMES KILKELLY—DOT

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COMMENTARY

Letters



PHOTO: DAVID VALDEZ

The Time To Act Is Now

I applaud your editorial "A Formula For Improving America's Competitiveness In World Trade" [August]. As president of a firm that provides strategic planning for international business and governments, I stress the need for American business to embrace the global market.

[The editorial cited the need for U.S. actions to meet the international-trade challenge of "the many new, capable and hardworking" competitors in a field long dominated by this country.]

With a decline of more than 50 percent in the value of the dollar against most major foreign currencies, American goods have become more attractive to overseas buyers in the past few years. Restructuring and investments undertaken in the past decade will yield hefty returns to producers who see that renewed competitiveness at home also signals lucrative opportunities abroad.

Besides having much to learn from Asia, American business must look forward to growing consumer affluence in Asia, a unified market of 320 million consumers in post-1992 Europe and expanding production-sharing arrangements with our neighboring nations to the south. Long-term commitment and creative approaches to unfamiliar markets are essential to increasing market share overseas.

But the time to act is now. As William Verity, Secretary of Commerce, stated when addressing the harmonization of European markets, "Without early attention from U.S. business, the European Community's 1992 could threaten established export and investment interests. With effective planning, however, 1992 can result in added growth and competitiveness for U.S. companies selling in Europe."

Rather than pleading for miracles from Washington, American business must act now in its own interest.

John J. McCabe
New York

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

On-The-Job Playing

I enjoyed your article "Nurturing Your Firm Through A Baby Boom" [September], but I do have a comment.

In her tips for surviving a baby boom, Judi Herrmann says that "talk about babies is fine—but not on office time." However, in the photo accompanying the article, not only is Ms. Herrmann "conferring" with an office colleague while holding her baby during office hours, but another employee is in the background playing with her child. The photo suggests that the children play alongside their working mothers.

What's the story?

C. Cunningham
Annapolis, Md.

Stay In The Ring On Drugs

What the writer of "Don't Give Up The Drug Fight" [Letters, September] doesn't understand is that the "war on drugs" has been a costly and disastrous failure and will continue to be so until drugs are legalized, regulated and taxed.

Current drug laws are exactly the ground rules under which organized crime flourishes. They need black markets in order to thrive, and illegality creates black markets. And ironically, crackdowns on drugs lead to scarcity, which leads to increased prices, which increases profits, which increases attractiveness, which increases crime!

The burning question is how long can we cling to asinine drug laws that damage the economy, spawn bureaucracies, create wealthy criminals, corrupt judicial and law-enforcement systems, waste talent, enhance a police state that lessens freedom and cost taxpayers an arm and a leg—and sometimes life itself?

Robert D. Helmholdt
Fort Lauderdale, Fla.

Citizen First

I am responding to your September editorial, "Democrats' Platform: A Blueprint For Restoring Rejected Policies."

Although I am a businessman, I consider myself a citizen first. This editorial was a great advertisement for the Democratic platform. I find myself in agreement with almost all of the positions you consider as "bad" for business. I will use your editorial to help sway my Republican friends to vote for the Democratic slate.

Richard P. Riendeau
Newtonville, N.Y.

Entrepreneurial Update

I continue to receive positive feedback from my article "Sharpen Your Focus And Aim High" [August]. Writing this article even forced my own business to take a closer look at its operations, and I'm glad to report we're continuing to show a profit each month.

Nancy A. Peters
Hendersonville, N.C.

The Bright Side

Sharon Nelton's article "Business, Family-Style" [August] was excellent.

It is true that you hear more often about failing family businesses. The successful businesses do not get nearly as much publicity as they deserve. I have been employed by my father's construction firm for 13 years. I find that what people do not realize is that family members involved in the business expect much more from each other than they do from nonfamily employees.

However, I also feel that through the love and support of your family, you can endure the hardest times and make them better. We have a very small but profitable business, and all of us work hard to keep it that way.

Thank you for being on our side.

Brenda A. Fraley
Baltimore

Signed: Irritated

Nothing irritates me more than to read articles that "appear" to inform or edu-

The difference between a child behind the wheel of a play car and a drunk behind the wheel of a real car is that only one of them is funny.

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For more information write to Greg Derrick, Phillips Petroleum, 16D-4 Phillips Bldg., Bartlesville, OK 74004.

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COMMENTARY

Letters

cate, while they misinform and prejudice the reader. Gerald W. Padwe's "The Law Of Rules" [July] was an article such as this.

In the article, Padwe cites a case in which a taxpayer attempted to argue substance over form to defend a very poorly constructed tax strategy, and he ended the account with a rather anti-government slur.

Generally, only the government can succeed in arguing substance over form—a fact ignored in the article. Why? Because the taxpayer (and his tax advisers) chooses the form.

In the article, Padwe ignores his own account of this. When he stated "an S corporation decided," a *decision* as to *form* was made. The corporation made it—not the government.

All of us, regardless of income, have the right to arrange our economic affairs so as to pay as little tax as possible. In doing so, we make decisions regarding the form of our transactions that may or may not have adverse tax consequences.

The rule, however, is not: "form or substance, whichever hurts the taxpayer more." The rule, Mr. Padwe, is that the taxpayer gets to and does choose and stipulate the form of his transactions. He should do so carefully and with competent counsel.

David W. Rettig, C.P.A.
Lake Charles, La.

Make Quality Job One

I am appalled that neither of our presidential candidates has made a stand on the real issue America is facing: quality.

I am a statistical consultant in quality control. The company I work for teaches that we can improve productivity and provide more jobs by increasing the quality of products and services. We cannot do this, however, unless top management believes in it.

Who is the top management in this country? The President.

Dr. W. Edwards Deming, the gentleman who helped the Japanese get where they are in quality, told several top officials in Washington during a meeting that the government is getting only 50 cents on every $1 that is spent.

No one disagreed.

Instead of trying to decide where we will spend our money, why don't we reduce waste and inefficiency and increase the power of spending?

Michel G. Patterson
Knoxville, Tenn.

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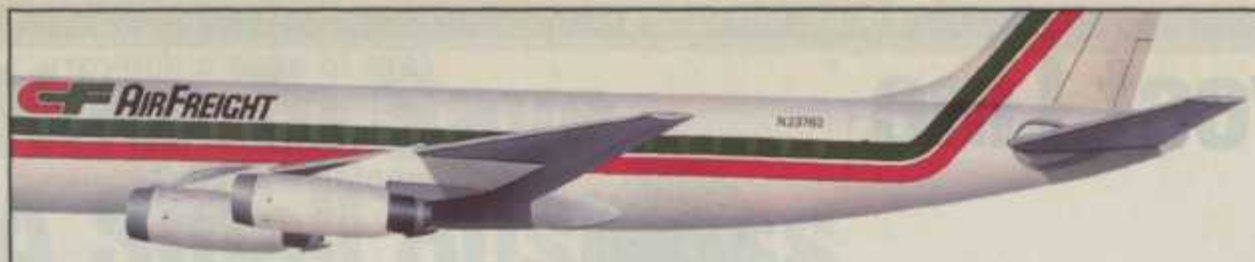
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Direct Line

How to open a day-care center, net a catfish farm and carry out an employee buyout.



ILLUSTRATION: WILLIAM COULTER

Employer-Sponsored Day Care

My mother and I are trying to get a local company to open a day-care center for its employees. But we need basic information about how to start and run a center. Whom do we contact?
D.W., Newberg, Ore.

Start by contacting Mary Louise McClintock, Child Care Coordinator for Oregon's Department of Human Resources, 320 Public Service Building, Salem, Ore. 97310; (503) 373-7282. Under the governor's mandate, her office encourages businesses to assist employees with child care. You can get help in obtaining the myriad licenses required by state and local agencies, and you will want to receive information on business-tax credits and guidelines for creating a quality program.

For a booklet on how to recognize quality child-care programs, contact the National Association for the Education of Young Children, 1834 Connecticut Avenue, N.W., Washington, D.C. 20009; (202) 232-8777. Enclose a $2.50 check or money order and ask for a copy of "What Is Quality Child Care?"

Fishing For Start-Up Assistance

I am a black male who would like to start a catfish-farming business in Arkansas. What assistance is available to me?
L.S., Paramount, Calif.

For a packet of general information on starting a catfish-farming business, contact the Catfish Farmers of America, P.O. Box 34, Jackson, Miss. 39205; (601) 353-7916. Include a $2 check or money order to cover postage, and note at the bottom of the check that it is for the information packet.

The National Association of Investment Companies can supply information on how to prepare a business plan and how to approach investment companies, as well as a directory of investment companies that offer venture capital to minority entrepreneurs. For information, send a check for $7.50 to NAIC, Seventh Floor, 915 15th Street, N.W., Washington, D.C. 20005.

You also should call the Small Business Administration's Minority Small-Business Capital Ownership Development office. You may write to them at 1441 L Street, N.W., Room 602, Washington, D.C. 20416, or call (202) 653-6407.

Divided We Stand

We are a division of a major corporation that has put us up for sale. Could you recommend an organization with which management could discuss the route to an employee buyout?
K.H., Jamison, Pa.

The National Center for Employee Ownership, which acts as an intermediary between employee groups and consultants, can provide you with resources and information on how to carry out an employee buyout.

Information about the association, including a list of publications such as the *Employee Buyout Handbook*, can be obtained without charge. To receive a resource guide to consultants and a directory of lending institutions that specialize in employee buyouts, you must become an association member, at $60 a year. For more information, write or call NCEO at 426 17th Street, Suite 650, Oakland, Calif. 94612; (415) 272-9461.

Keeping Business Secrets

How do I protect my idea for a new type of pickled food product? I'm afraid that someone might steal my idea.
N.S., Las Vegas, Nev.

Generally, the best way to protect your recipe is to bring it under the category of confidential business information, commonly known as a trade secret, says Judith Sapp, with the law firm of Covington & Burling in Washington. But there's a catch. You must keep your recipe secret to maintain its trade-secret status. If you decide to talk with a food processor about manufacturing your product, you first should have the manufacturer sign a confidentiality agreement promising not to disclose your recipe to anyone or use it without your permission. Laws on trade-secret status vary among states. Find a good local lawyer for assistance with Nevada regulations.

Data, Data Everywhere

Where do I get information on the number of people 16 years old or younger in the Baltimore/Washington area, and population projections for the same area and group through 2010? Can this information be broken into ZIP codes along with income data?
T.S., Baltimore

The Census Bureau produces mountains of data on population groups and income. The agency's Washington office for customer services, (202) 763-4100, can steer you to specialists who may have answers for your questions.

Your best bet, however, is to start with the State Data Center in Baltimore. Like similar centers in other states, it handles specific inquiries about Census Bureau data available for the state and adjacent areas, such as Baltimore/Washington. Arthur Benjamin heads the Maryland State Data Center, (301) 225-4450. Information is provided at cost.

Private firms also sift through Census data and provide answers to questions like yours for a fee. Look in the Yellow Pages under market research and analysis for local listings. **NB**

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

ENTREPRENEUR'S NOTEBOOK

How To Save A Small Business

By Kathy Conners

Conventional wisdom can be the graveyard of the entrepreneur. My husband and I ran into this truth many times in the course of saving our Colorado Springs grocery business and commercial property.

We had bought a downtown grocery in early 1984, and that year our business began falling off for a number of reasons: People were moving away from downtown as homes were replaced by office buildings, and supermarkets in the suburbs were attracting customers. On top of all that, Colorado's energy-based economy was going into a decline that brought the highest rate of bank and savings-and-loan failures since the Depression.

Within three years, we were at a turning point. Our customers were using us only for convenience shopping, so we had more space than we needed. We were about to yield to the conventional wisdom: Sell the business for the value of the land.

But we had an asset: a 14,000-square-foot building with 43,000 square feet of parking space in an office-building area with very little parking. The building's major merit was spaciousness. I knew that there had to be a formula to save the business and to give the community convenience shopping. It would be a true test of our abilities.



PHOTO: JAMES COOK

I knew that there had to be a formula to save the business and to give the community convenience shopping. It would be a true test of our abilities.

I took on the project of selling the building or leasing all or part of it. Our first step was to scale the grocery down to a convenience store. We also leased one part of the building. Business still didn't pick up, and I wasn't having much luck finding other businesses to lease space.

One afternoon I passed the shuttered Trailways bus depot. Greyhound had bought Trailways, and I decided to call the Greyhound office to see if they might want to move their combined operations to our location. It was not entirely a shot in the dark, because their location looked cramped.

Conventional wisdom says you don't get anywhere with a blind call, but my experience proves otherwise. I remember that call very well. I merely asked the person who answered the phone if Greyhound had ever thought of moving to another location. "Of course we're looking," he said, and told me he would have the manager call me at once.

The next day the manager was driving around our parking lot. For the next couple of months there was a steady flow of Greyhound people looking at the site. The catch was that they wanted only about 5,000 square feet of the building but all of the south end of the parking lot.

They were sold on the location, but it took months to negotiate the lease. In setting up the lease, we developed a way of using the building as a shared space. Greyhound would take a portion, but its lobby would be open to the rest of the building. We would operate our convenience store, add a fast-food bar and maintain all rights to concessions as long as we kept the same business hours as Greyhound.

With this plan, the idea of the service center I had been trying to push at first seemed feasible. I started calling all over again: check-cashing facilities, credit unions, small novelty retailers, T-shirt companies, video rental stores, shoe-repair stores, welcome services and florist services.

By day I did my telephoning. By night I would plan the next day's contacts and make lists of interested parties so that my husband could do the follow-ups.

We came up with nine businesses to occupy the building along with Greyhound. Seven of the nine new occupants were small-business people planning extensions of their already successful companies.

As these businesses fell into place, we needed financing for a building face-lift. It was a nightmare, even though we had a solid basis for applying for a loan. We had a long-term lease with Greyhound, written commitments for space from successful business people in the community and an appreciating property. But most bankers were unwilling to consider the project because they were facing hard times themselves from the regional economic slump.

Eventually, we found our banker in Colorado Springs, and we also got a small, low-interest construction loan from the city.

Our commercial mortgage company told us that they had never seen anyone convert a declining downtown business into a profitable enterprise by sharing the building space. But to me it appeared to be the only way to save our life's investment and everything we had worked for.

After all the exhausting and agonizing physical and mental labor, we dedicated our building and opened this past August. And we had done it contrary to the conventional wisdom that says you must have lawyers, interior designers, architects and real-estate people to bring off such a deal.

Now we can watch Greyhound expand its operation, and after all the skepticism, we can enjoy the compliments on our success—including the ultimate compliment of imitation: An East Coast investor, impressed with what we have accomplished, hopes to copy it in an old Safeway building.

So much for conventional wisdom. ■

Kathy Conners is co-owner of The Convenience Stop in Colorado Springs.

Readers are invited to contribute to Entrepreneur's Notebook, a forum in which owners and/or managers of smaller to medium-sized businesses discuss their experiences. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Small-Business Update

By Joan C. Szabo

Interest Rates Should Fall In '89

Interest rates should drop with the start of the new year, says William MacReynolds, director, financial and monetary affairs, for the U.S. Chamber of Commerce. He expects rates to begin easing in the first quarter of 1989, which will provide small firms with a good opportunity to borrow for business start-ups or expansion.

MacReynolds sees the prime rate dropping from 10 percent in the final quarter of 1988 to 9.8 percent by the first quarter of 1989, and then to 9.5 percent by midyear.

Lawrence Kudlow, chief economist for the New York investment firm of Bear Stearns & Company, expects a similar easing of rates in 1989.

The "Blue Chip Financial Forecasts," a monthly survey of 50 economic forecasters, registers a cautious dissent, predicting the rate easing will not occur until the third quarter of next year.

Lyle Gramley, chief economist for the Mortgage Bankers Association, says the prime rate could go as high as 11.5 percent before it begins to level off by the middle of the new year. He says the economy continues to expand too rapidly and that inflationary pressures continue to build.

MacReynolds contends that the easing of rates will come about because inflationary pressures are not as great as previously expected. He says inflation will ease in 1989.

MacReynolds looks for the Federal Reserve to follow a less restrictive monetary policy in 1989. "The Fed's policy is not going to be an easy monetary policy, but the Fed now realizes that it has to worry less about accelerating inflation and more about maintaining moderate economic growth through the remainder of 1988 and into 1989."

The American Dream: Your Own Business

Owning a business is still part of the American dream despite widespread awareness of the high risks involved in launching one. That is one of the findings of a recent nationwide survey conducted to determine how the public views small business.

The survey, commissioned by the Comprehensive Accounting Corporation, found that 77 percent of those surveyed said they were aware that small businesses have a high rate of failure and bankruptcy, yet 53 percent said they would like to own their own small business. The Comprehensive Accounting Corporation is a nationwide franchised accounting firm specializing in small business.

More than 1,000 men and women responded to the survey, with two thirds of them saying they had been or are now employed by a small business.

Despite their enthusiasm for owning a business, "Americans have not mastered the discipline of managing and building their small businesses," says Leo G. Lauzen, chairman of Comprehensive Accounting. "Operating a business requires knowledge in eight areas—management, planning, accounting, taxes, marketing, finance, personnel and sales. Having skills in these areas will allow more people to achieve their dreams."

Act Now To Avoid Double Taxation

Small-business owners still have time to avoid the threat of double taxation when they sell their businesses.

The Tax Reform Act of 1986 repealed the "General Utilities Doctrine," which allowed small-business owners to sell their companies with minimal tax consequences. Before the 1986 law, when a firm was sold, shareholders who received the proceeds were responsible for paying the tax. The corporation it-

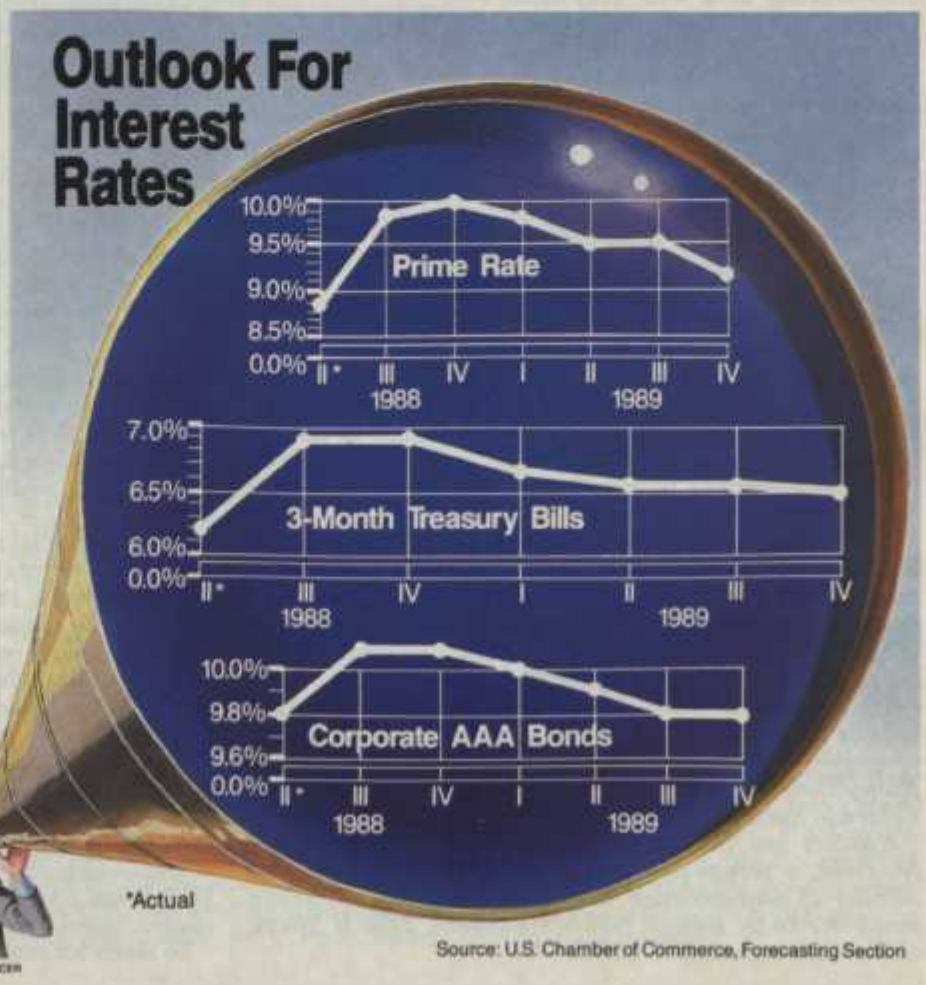


CHART: HAROLD SMELCER

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This Month's NB TIPS

The U.S. Chamber of Commerce has produced a set of five booklets to help companies deal with specific aspects of their operations. The series includes:

How To Comply With the Plant Closings Act, USCC-2005;

How To Comply With the Immigration Reform Act, USCC-2001;

How To Sell To the Federal Government, USCC-2002;

How To Manage Risk and Control Your Insurance Costs, USCC-2003;

How To Expand Your Market Through Exporting, USCC-2004.

Business people may order these pamphlets by calling the Chamber's toll-free number, 1-800-638-6582 (1-800-352-1450 in Maryland). Request the publications by title and number. The publications are free up to 100 copies and 10 cents for each copy in excess of 100.

For small companies new to the exporting game, there is a useful new pamphlet, "Export Marketing Primer." The 24-page pamphlet explains how to research your market and determine export potential. In addition, it provides information on how a freight forwarder and the international department of your bank can assist you.

It sells for $4.95 plus $1 for postage and handling from Upstart Publishing Company. To order a copy, call 1-800-235-8866, or write to the company at 12 Portland Street, Dover, N.H. 03820.

self paid none. Now the seller must pay two taxes, one at the corporate level on the gain from the asset sale, the other at the individual-stockholder level when the proceeds are distributed.

But Congress gave closely held corporations valued at less than $5 million some breathing room. These firms have until the end of 1988 to sell without being affected by the doctrine's repeal. Lawmakers provided some relief for firms valued from $5 million to $10 million.

Tax experts say that before the year is up, it may be beneficial for some small companies—those not planning to sell—to liquidate and reorganize as a partnership or convert to S corporation status, thereby avoiding the double tax if they later are sold. Under an S corporation, profits flow to the business owners, who are taxed at the lower individual rates rather than the higher corporate rates.

Ways For Small Firms To Serve Uncle Sam

A 2-year-old federal program designed to save the federal government money and make it more efficient is offering smaller firms good opportunities to sell to Uncle Sam.

The opportunities arise through the Cooperative Administrative Support Program. Under the program, when the offices of various federal agencies are housed under one roof in a location outside Washington, they share administrative support services for functions such as procurement, space management, warehousing and photocopying.

For small firms seeking to do business with the federal government, Cooperative Administrative Support Units (CASUs) offer excellent contracting opportunities, says Ed Shell of the President's Council on Management Improvement, the program's initiator.

Small firms can provide services such as mail sorting, child care and physical-fitness programs.

Currently there are 14 chartered CASUs; New York and Los Angeles have two apiece, and there is one each in Seattle; Chicago; Kansas City, Mo.; Denver; Atlanta; Boston; Fort Worth, Tex.; Cincinnati; Jackson, Miss.; and Anchorage, Alaska. By the end of 1988, 24 sites are expected to be chartered.

For more details, contact CASU, c/o General Services Administration, 18th & F Streets, N.W., Washington, D.C. 20405, or call Ed Shell at (202) 523-5278.

Software For Business Plans

A revolutionary new way to devise a business plan is available in the software package titled "Business Plan Expert." Using a question-and-answer format, BPE takes you through key areas of a business plan, such as company information, products, marketing strategies, operating strategy and planning assumptions. BPE requires little or no computer knowledge.

"BPE is unique because it can be applied to all kinds of businesses, it helps develop the basics about a business and works at any stage in the life cycle of a business," says G. Stefane Millhouse of the Houston-based Expert Technologies, producer of the software package.

After answering the questions, the user can print out a business-strategy profile that can become a backbone for a business plan. The software also can be used to update a business plan.

The software package costs $195. To order BPE, call 1-800-FAST PLA. In Texas, call (713) 526-0909.

Advice On Substitutes For Lie-Detector Testing

Employers should take a cautious approach to paper-and-pencil tests billed as substitutes for the polygraph screening that has been banned by federal law effective December 27. The ban applies to the private sector and covers nearly all testing of employees and job applicants.

Some written tests can help spot drug and alcohol abuse, dishonesty or other tendencies, says psychological-screening expert Robin Inwald. But many tests, she adds, are poorly constructed and inadequately researched.

In a paper on the subject of psychological testing, Inwald notes that employers who administer faulty tests risk embarrassment, lawsuits and financial loss from unwarranted rejection of otherwise acceptable workers. Inwald, who is director of Hilson Research, Inc., Kew Gardens, N.Y., advises employers to examine closely the test developer's credentials as well as the test's underlying research. "Bear in mind that just about anyone can write questions on paper, run a few quick so-called validity studies, print glossy brochures and publish a test," she warns.

The ban on so-called lie-detector testing was enacted last June over the objections of business groups, including the U.S. Chamber of Commerce. It exempts a few business categories, including manufacturers and other handlers of controlled drugs, and providers of private security services. It also permits any employer as part of an ongoing criminal investigation to request that a worker take a polygraph test when there is "reasonable suspicion" that the employee is involved in the crime. NB

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MANAGING YOUR BUSINESS

Confidence Grows For Small Business

By Herbert S. Braun, C.P.A.

Small-business owners are more upbeat about the economy now than they were six months ago, according to the latest *Nation's Business*-Ernst & Whinney survey of chief executives. Their confidence about the nation's economic performance in the year ahead is higher now than it has been since the first of the semiannual surveys of executives' attitudes two years ago.

Seventy percent of the executives responding to the most recent survey said they are either very optimistic or somewhat optimistic about the economy in 1989. The figure was significantly higher than the 64 percent of respondents who expressed such confidence six months ago. The highest confidence level posted in the surveys was reported in November, 1986, when 77 percent of executives expressed optimism about the economy.

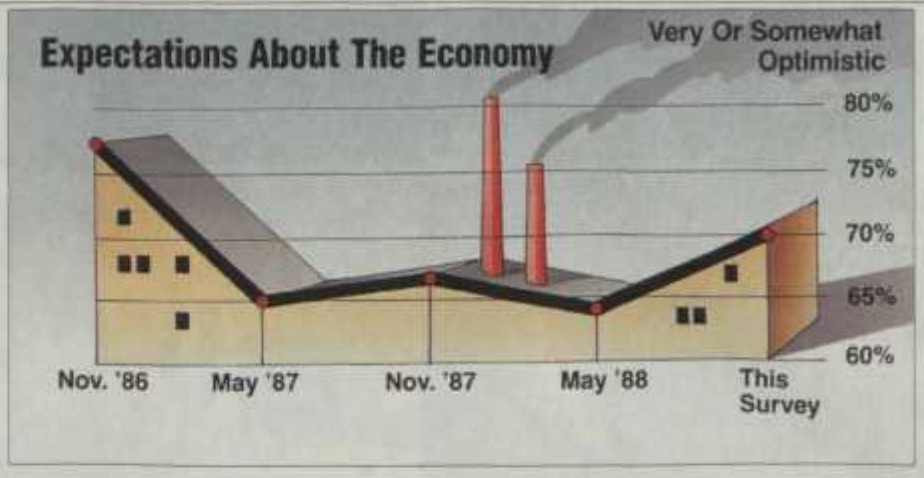
"I think the economic recovery will continue," said David Otsuki, president of Capital Color Laboratories in Santa Clara, Calif. "Employment figures are very favorable, and the strength of the dollar against other currencies is a good sign. Inflation has remained steady, also. My company's existence is tied to the amount of discretionary income out there, so I've got to be confident about the economic picture."

The survey was commissioned for *Nation's Business* by Ernst & Whinney, a leading international public-accounting, tax-advisory and management-consulting firm. The survey was carried out by Angell & Company, Inc., an independent marketing-research firm.

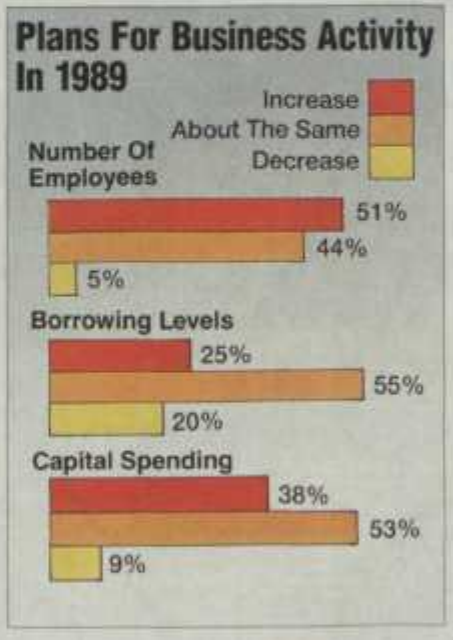
Telephone interviews were conducted with 500 chief executives chosen at random from a statistically representative sample of U.S. companies with annual sales of up to $40 million.

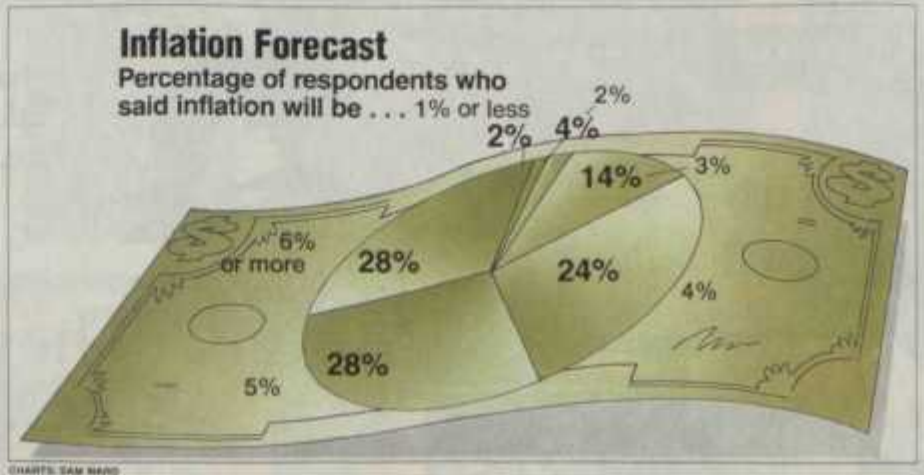
Two thirds of the surveyed executives have been in business more than 15 years. Well over half said they earn more than $100,000 a year, and nearly 1 in 5 earns more than $200,000. Most are 35 to 54 years old.

Herbert S. Braun, a partner in Ernst & Whinney, recently concluded a six-year term as national director of its services for privately owned and emerging businesses.









CHARTS: SAM MAND

Most small-business owners foresee good times for their companies in the year ahead, most say their firms are in good to excellent financial condition, and half say they expect to hire more workers.

A majority of those who responded said they see good times ahead for their companies. Ninety percent said their companies are in good to excellent financial condition, and 65 percent expect net operating results to be improved one year from now. Although that is a slight drop from the expectation level of six months ago, other indicators of small-business confidence about the coming year are essentially unchanged. Fifty-one percent expect to hire more employees, 38 percent expect to increase capital spending, and 25 percent expect to increase their borrowing.

Etta Williams foresees improved results for her Mutual Business Forms company in Powell, Tenn. "We're making several internal changes that will help us," she said. "Through production changes and expanding our training to all personnel, we are expecting to create efficiencies within the company."

"I can't really expect a large increase in sales," said R. David Halbower, president of the Texas Drug Company, a Fort Worth wholesaler. "But small, sustained sales increases coupled with maintaining margin will mean better operating results for me."

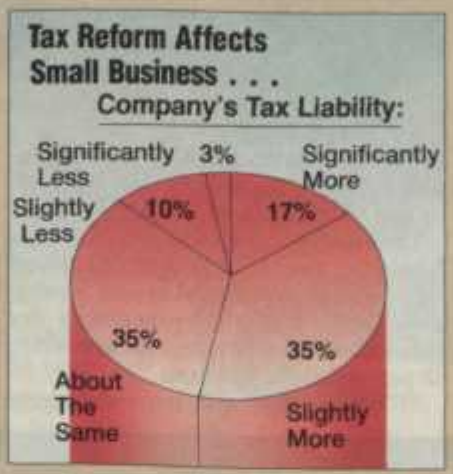
Recession And Inflation. Although confidence about the economy is at a fairly high level, almost two thirds of the executives expressed concern about recession and inflation. The proportion extremely concerned about inflation has fallen to 8 percent from 11 percent in the six months since the previous survey, and the percentage extremely concerned about recession has remained at 12 percent.

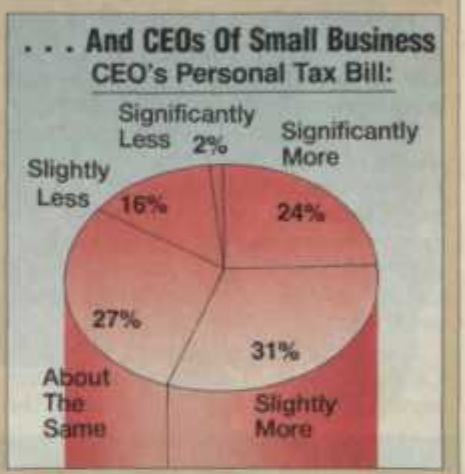
In each *Nation's Business*-Ernst & Whinney survey, small-business CEOs have predicted a rise in the inflation rate during the year. The current survey continues the trend, with an average prediction of 5.2 percent, compared with a forecast of 4.7 percent six months before.

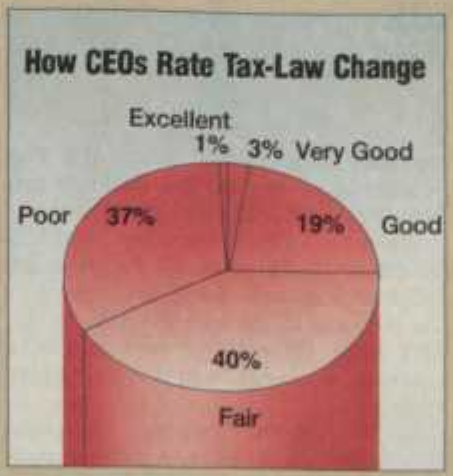
Past surveys indicate that the CEOs consistently err on the high side with their inflation predictions. The inflation rate at the time of the survey was running at a 3.4 percent annual rate. Respondents to the survey a year earlier had predicted it would be 5 percent.

Interest Rates. The small-business owners predicted that the prime rate would rise from 9 percent at the time of

Early Returns Show Concern On Tax Changes







Just over half of the small-business people interviewed for the latest *Nation's Business*-Ernst & Whinney survey said they are paying more in business and personal taxes as a result of the 1986 tax-reform law.

When asked how the new tax structure affected their personal tax liability, nearly one fourth said they are paying "significantly more" and 31 percent said they are paying "slightly more."

Only 18 percent said their own tax bills are lower than they were before the tax-law overhaul: 16 percent said they are paying "slightly less," and 2 percent said "significantly less."

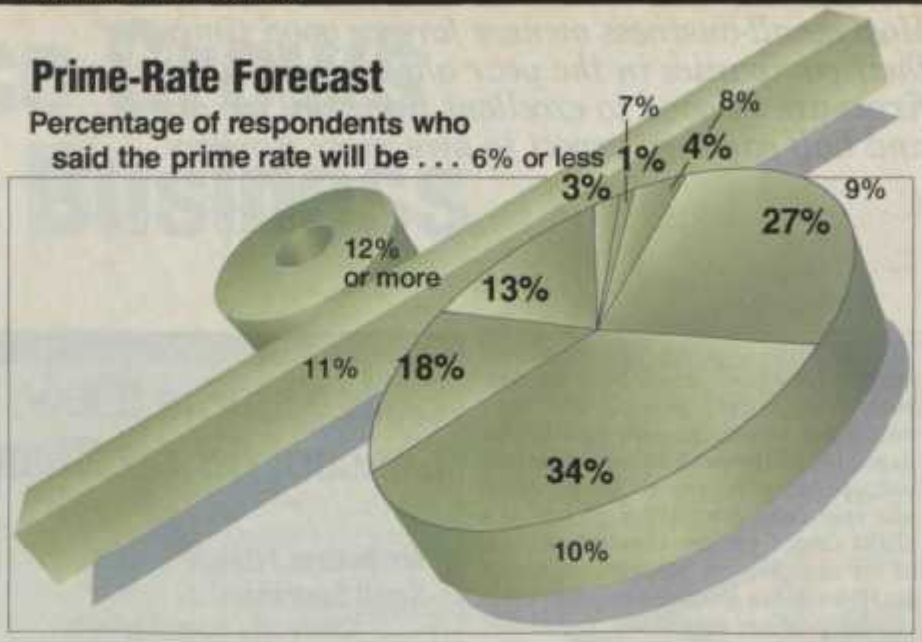
In addition, of those who said tax reform had affected their business planning, 52 percent said their companies are paying significantly or slightly more in taxes, 35 percent said their firms are paying about the same, and 13 percent said their companies' tax bills are lower. Thirty-seven percent gave tax reform a poor rating, and 40 percent called it fair. Only 19 percent said the reforms are good; 3 percent called them very good; and 1 percent termed them excellent.

Elimination of the investment-tax credit was among the factors producing negative views on the tax changes.

Said Jack Keck, president of Joliet Equipment Corporation, an Illinois manufacturer of electrical controls: "My company and I, personally, paid a lot more in taxes than before. And the future doesn't look good, either. If the government doesn't curb its spending, tax rates can only go up."

Provisions of the new law have been taking effect gradually since its enactment. For many business people, the impact of some of the major changes will not be fully apparent until they file their 1988 returns next year. Their current perceptions of tax reform might change as a result of that experience.

Confidence Grows For Small Business



the survey to about 10 percent, the first time their average prediction has reached double digits since the initial survey in 1986.

In fact, the prime, the rate at which banks lend to their best business customers, rose to 10 percent shortly after the survey was completed.

"I think the government will have a hard time managing the deficit and that it will start to tighten up the money supply and push the rates up," said Halbower.

The rate they must pay to borrow money is a concern to two thirds of the CEOs, which is up from the 58 percent who expressed concern six months ago.

Other Concerns. The cost and availability of labor now worry more small-business executives than they did in any previous survey. Sixty-eight percent of the respondents are now at least somewhat concerned about labor costs, and 59 percent are concerned about availability.

David Otsuki, president of the lab in California, said: "Labor is at a premium here in Silicon Valley. I don't have the margins to match the high-tech companies in paying unskilled labor. My profits can only handle so much."

The most widespread CEO concerns, however, focus on government—as they have in previous surveys. Ninety-three percent of the respondents are concerned about government spending, 82 percent about red tape.

"I have to deal with too many agencies, and each one seems to have conflicting regulations and requirements," complained Alex Zaika, president of New York City's All-Z Corporation, which handles apartment rentals. "Worse than that, they don't know what the other is doing, nor do they care. It's just too much—and with the delays caused at each agency, I stand to lose a lot of money." NB

CEOs' Likes And Dislikes About Business Life

When asked what they like and dislike about business life, owners of smaller businesses rated personal independence as the most attractive aspect, and they said that managing labor is the least appealing challenge.

One third of those interviewed put the freedom of owning a business at the head of their lists. Everything else trailed far behind.

Managing labor was cited as the most disliked aspect of business by more than 20 percent of the respondents. The CEOs also complained of long hours (14 percent), and government regulations and red tape (13 percent).

Nearly 1 in 10 of the executives surveyed, however, had no complaints at all about business life.

The views of many who took part in the survey were like those expressed by William S. Thomasson of the Hill City Wholesale Company in Lynchburg, Va.: "I work about 65-70 hours a week. On top of that, I take work home all the time. It sure takes away from my sailing time. But if I had to do it all again, I wouldn't do anything differently. The headaches of owning the business are far overshadowed by the rewards."

When the CEOs were asked what has been their "best decision," the one most frequently stated—by 26 percent—was the decision to go into business in the first place. Only 4.3 percent said that entering business was their biggest mistake.

CEOs said the toughest decisions they make are those concerning expansion, whether through merger, acquisition, physical-plant additions, establishing branches or enlarging service districts.

Decisions concerning expansion were mentioned by more than one third of those surveyed.

Ten percent said an expansion decision was the best they ever made, and an equal number said it was the worst—which included many who were unhappy with a decision not to expand.

"Some years ago we had the opportunity to purchase a parcel of land adjacent to our plant for around $10,000," recalled Etta Williams, president of Mutual Business Forms in Powell, Tenn. "Well, we deferred that decision and bought it a couple of years later—for $120,000."

Other tough decisions have to do with financing and purchases, which were areas that 20 percent of the small-business owners raised when discussing their worst mistakes. They mentioned misjudgments such as spending or borrowing too much, undercapitalizing, extending credit to the wrong parties and buying the wrong equipment.

Decisions in areas such as choosing business associates, marketing, planning and computerization were mentioned by about 1 in 4 as their best. A slightly higher percentage of the survey's respondents mentioned such decisions as their worst.

The executives said many of their best ideas have been in the sales and marketing areas. David Bonanni, head of Bonnani Realtors in Mercerville, N.J., provided an example: "We changed our market from residential to commercial real-estate sales. It is a pretty tough thing to do without enough capital to hold you over until you crack that market—but we made the decision, and it is the best thing we ever did. Profits are much higher, and our work hours are better."

"These keys make it easier to move cars."

Jack Perry, Jack Perry Motors, Inc.



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COVER STORY

The Master Sellers

By Jack Shewmaker



PHOTO: T. MICHAEL KEZA

Managers of Peoples Drug Stores confer with Shewmaker following his address to a marketing seminar in Arlington, Va.

Jack Shewmaker was for many years one of the handful of people most responsible for the greatest retailing success story of the last quarter century: the rise of Wal-Mart Stores, Inc., of Bentonville, Ark., from obscurity to the topmost ranks of the nation's retailers. Shewmaker served under Wal-Mart's founder, Sam Walton, as president and later as vice chairman and chief financial officer.

He retired from Wal-Mart earlier this year, at the age of 49, remaining on its board, and is now busier than ever before, as a director or $5,000-a-day consultant for companies that have sought him out because he is one of the most astute observers of retailing and of business in general. *Nation's Business* sought him out for the same reason, and we asked him to distill his experiences in an article that could offer concrete guidance to our readers.

In the following article, Jack Shewmaker lists the 12 rules for boosting sales, guidelines that underlie his own achievements. On the subsequent pages, other experts with strong track records of success draw on their own experiences to provide advice from which everyone whose business depends on selling can benefit.

In nearly 20 years with Wal-Mart Stores, Inc., I observed a number of companies that were once very successful but then began to fail. Because of Wal-Mart's rapid growth, we interviewed executives, managers and even hourly workers from these companies, and we hired many of them. We also learned from what they told us in the interviews.

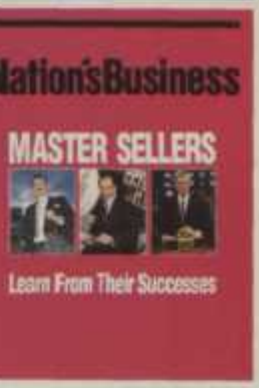
We learned that the shortcomings that lead to failure are basic: inadequate funding, dishonesty, poor leadership and no sense of direction.

We learned that the ingredients of success are just as basic. They are mostly common sense—and they are very, very transferable. Here is how I would describe them:

1. Be an enthusiastic leader. Whenever you buy or start a business, you immediately commission yourself "leader." In order to be a good leader, you must be excited about your business. Some people believe that success brings enthusiasm and happiness, but, much more often, it is the other way around. Enthusiasm is contagious, and even if you are a one-person operation and have no employees to fire up, your enthusiasm will be conveyed to customers, bankers and suppliers.

Some aspiring leaders confuse enthusiasm with egotism. They are separable. If you are conducting a pep rally for employees, you should speak enthusiastically about the company but guardedly about your own talents and your own role. And when you think about it, why should the owner or leader of a business take any credit? What purpose does that serve, when everyone knows that many others contributed to the success? Invariably, the best leaders shove the credit down to the lowest possible level—which is often where it belongs in the first place.

Here they are. In this cover-story package, experts on selling share the rules they used to put their companies on top.



2. Learn to ask questions. You get more feedback by asking, instead of telling. Ask suppliers, "How can we sell more of your product?" Ask employees, "How can we do this more easily? What's your idea?" And, of course, ask customers, "How can we serve you better?" Frequently, struggling business owners seek feedback from only a few close friends—and sometimes the only advice they get is from a spouse or next-in-line manager. Even when this input is good, it's not enough.

Not all businesses can afford to offer customers a toll-free telephone number or even preaddressed, postage-paid forms. But I don't know of anyone in business who is prevented from getting a few customers together in a group and hearing them out. If you are prone to be defensive whenever criticisms are voiced, you had best prepare yourself for these meetings.

Time after time, I have seen struggling businesses where the solutions to problems were known by employees. I often wonder why so many business owners and operators fail to take advantage of these tremendous reservoirs of information. I suspect that they fear criticism or don't want to hear about bad developments.

You must learn not only to ask questions but also to listen to the answers. And not to the words alone, but to the overall idea.

Above all, concentrate on any good point, being careful not to get sidetracked by mispronunciations, accents or even incorrect assumptions.

One store manager I knew simply called terminated employees or inactive customers and asked them what happened. He waited without interrupting until they had unloaded on him. At that point, he might not be able to do anything—but thank them for sharing

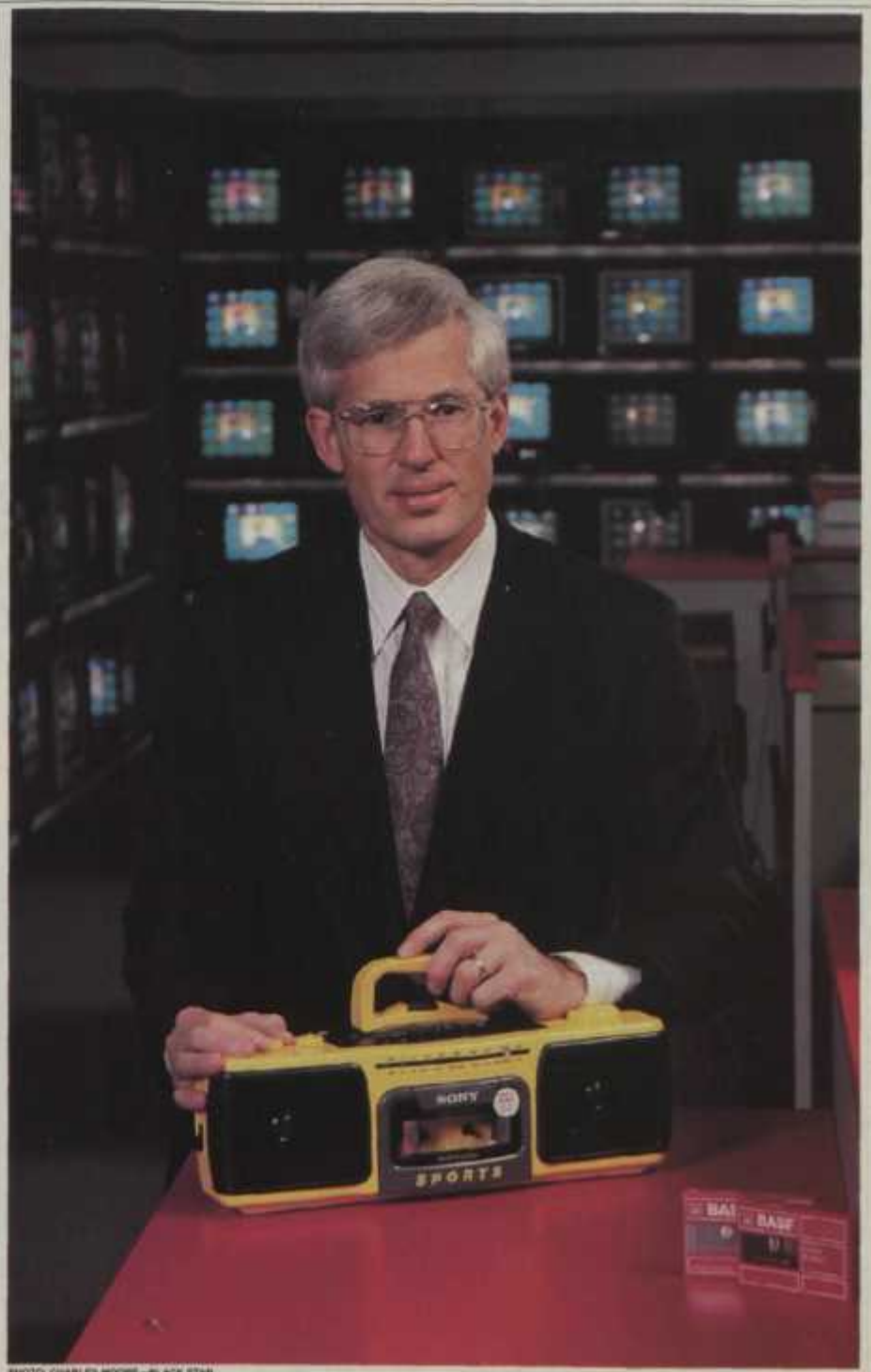


PHOTO: CHARLES MOORE—BLACK STAR

President Richard L. Sharp (See article on Circuit City on Page 28.) says that at Circuit City Stores, "We adhere to the old adage that the customer is always right."




SEBASTIAN



"A, er, friend of mine has a problem."

"Yeah? What?"

"Whether to order Corsicas or Taurus."

"Kind of apples and oranges isn't it? I mean Corsica's a compact. Pass the breadsticks."

"As a matter of fact, the EPA says it's a mid-size. And have you driven a Corsica? It's got more front seat leg room than Taurus."

"More than Taurus?"

"And they both have the same standard horsepower. But there's a big difference in price. Corsica costs nearly eighteen hundred bucks less."*

"No problem. Go with Corsica and make four people comfortable —you, your drivers, your CFO..."

"And..?"

"And your 'friend'."

"Thanks. More breadsticks?"



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their time with him—but sometimes he could identify and correct a problem.

3. Make the customer No. 1. The customer should be on top; next should come your employee-partners. And, of course, you should be on the bottom. Without exception, the really successful people I know make the customer No. 1, no matter what. For some people, this can be hard to do, because customers can be unreasonable. Yet, I have seen good leaders win over numerous customers by going more than halfway.

Lots of retail stores turn off customers through signs that say, for example, "all returned checks will be subject to a $10 charge," "no food or drink allowed," "no pets," "no credit cards in this checkout lane—cash only," and so on. I suggest that you greet your customers with *positive* statements, in signs, advertisements and policy pronouncements—"everyday low prices," "bicycles assembled free," "price reduced." Here is one of the most successful examples from my own experience: "At Wal-Mart, you're always next in line."

I have given refunds on merchandise that the customer swore was purchased from one of our stores, even though the merchandise was clearly labeled with a competitor's name. Other business people I know have refunded the total amount of a customer's payment because of a partial lack of satisfaction.

This approach is difficult for most new or struggling businesses to accept. They argue that the expense is too great or that the customer is trying to take advantage. They will impose all kinds of controls on customers, to prevent what is likely to be a once-in-a-lifetime problem or mistake—and at the same time, they will spend thousands or even millions of dollars on advertising that is intended to bring customers in. There is not an unlimited supply of customers, and we severely limit the potential of our businesses by alienating any customer, at any time.

4. Seek out and solve employees' annoyances. An employee with a complaint cannot be completely effective in dealing with customers. Solving such a problem may take nothing more than a minor change in the work schedule, or a different time clock, or more of your time and appreciation.

I have visited businesses where most of the basic rules for business success were being applied, but morale was poor and productivity was low. The employees were upset about minor distractions or oversights by the boss. I say "minor"—but to the employees, they weren't minor at all.

Some people believe that success brings enthusiasm and happiness, but, much more often, it is the other way around. Enthusiasm is contagious, and even if you are a one-person operation and have no employees to fire up, your enthusiasm will be conveyed to customers, bankers and suppliers.

Take, for example, the manager who refused to let an employee participate in the wedding of one of the employee's best friends. The wedding occurred on the busiest day of the year, and the manager's rationale was that employees were obligated to work on the days the manager needed them. Maybe so; but that is not always the way an employee sees it. So the employee worked that busy day to keep his job, but he was annoyed, and his productivity suffered for days and months to come. Little was gained, while much was lost.

The leader's job is to find a solution that serves the best interests of both business and employee. Why not ask the employee to help find a substitute or to switch hours with another employee—or, better yet, why doesn't the boss offer to fill in for the employee by coming out from behind the desk and doing the employee's job? What better way for a boss to earn respect and appreciation than by being empathetic and supportive at the same time?

The good leader meets employees halfway, and the good ones respond.

5. Get your employees involved. Make them your partners—or your "associates," which is what Wal-Mart and a growing number of other companies now call their employees. Your associates may not own one half or even one tenth of the business, but they can participate. Profit- and salary-incentive programs can produce marvelous results, and I highly recommend them. But associates' involvement should go much further. At Wal-Mart, for example, every one of us could participate in the company's success through a profit-sharing trust, stock options and a stock-purchase plan. It seemed to me that the more we gave to our associates, the more they produced.

Another example is Hutchens Industries, which produces suspension systems for over-the-road truck trailers. It employs 750 people in Springfield, Mo. Jeff Hutchens is the third generation of his family to own the company. The company's philosophy has been that its greatest asset is the people who are involved in it—chiefly the employees. The family has always had this philosophy and had always given a bonus to employees, usually around Christmas. In 1985, however, the company totally refocused its compensation plan. Now all employees participate in profit sharing, so that they directly benefit from the success of the company.

Since then, the price of Hutchens' product has not risen, but has, in fact, gone down to 1981 levels. But the profitability of the company has doubled—on less than 10 percent sales growth. Jeff says the reason is that employees at all levels have come up with new ideas that have helped make a better product for less money. Having most of the ideas come from people on the manufacturing floor is in accord with the company's philosophy: No one knows how to do the job better, or how to improve it more, than the person doing it day after day.

Let your associates know your operating results; don't be obsessed with confidentiality. A good associate wants to know how the business is doing. I can recommend nothing as highly as frequent motivational, share-it-all sessions with your associates.

6. Keep learning. One of the learning opportunities available to most business people is attending trade shows, conventions and seminars. I have always been fascinated by the differences in participants at these events. For some, a convention or trade show is a well-earned vacation that permits them to get away from the stress of their businesses and go out and have a good time. I have observed that the business people who make these events purely recreational pursuits are in struggling or declining businesses. Conversely, the business people who

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make them learning experiences, by all-out involvement and participation, are the ones headed up.

Learning opportunities abound everywhere, and a good business leader is always looking for them.

7. Monitor your competitors. But avoid looking for their faults. Instead, look for anything, no matter how minor, that they are doing better than you. No one operator has all the good ideas. Above all, don't disparage your competition. Invariably, this negative approach does more harm than good. Convincing yourself that you do some things better does little more than serve your own ego. Your goal must be to improve. Whom we learn from is unimportant.

I visited many competitors' stores with Sam Walton. I particularly remember one visit because the competitor's store was a disaster. But Sam didn't acknowledge the store's shortcomings. All he saw was one small, but good, display in a far corner. He said to me, "Jack, how come we're not doing that?"

8. Monitor your own business. Establish controls and reports that let you know your operating results frequently—and in detail. As you get bigger, you may choose to depend more on others. But, even then, there is no substitute for the top leader's personal inspection. Trust people and depend on them, but don't practice "blind faith" delegation. Examine the cash-flow process by randomly auditing expense accounts, accounts receivable, accounts payable and payroll. A good leader keeps his people honest by examining every component of the business and letting this intention and practice be known to all.

I have seen many long-term, faithful associates get caught stealing. Almost always it started with something small, and when no one noticed or cared, it grew to be something big. People, in my opinion, are not born to be dishonest—they are inherently good and virtuous.

But all of us face temptation from time to time, and unless the leader has established clear policies on honesty, integrity and morality, some associates may let temptation overcome their better judgment. Knowing this, a good leader establishes his code of ethics early. He explains his policies, procedures and controls frequently, and he asks each associate to participate in maintaining these controls.



At Hutchens Industries, where employees share ideas and profits, President Jeff Hutchens, left, and Danny Lansdown, customer-service director, examine a trailer.

PHOTO: CHUCK KNEYSE—BLACK STAR

9. Monitor yourself. Sometimes a particular aspect of your business will require an inordinate amount of your time and effort, but be careful that you don't become obsessed with one small part of your operation. I am an advocate of sophisticated systems, but one of the gravest mistakes made by small-business people is to become preoccupied with computers. I have seen people who practiced escapism by writing their own software for a personal computer while letting customers go unattended or problems with associates go unresolved. In smaller firms, I have observed owners who would rather prepare their own ads than help a customer.

There is no substitute for getting out where the action is. That is where you learn; that is where you get a clear view of the progress or lack of progress your business is making. Any effective business owner or leader must have regular and frequent contact with customers and with those associates whose everyday job is dealing with customers. Such contact is more critical and important than anything else you can do.

10. Live within your means. Avoid the temptation to overdraw your salary or to spend money foolishly. My office at Wal-Mart was about 12 feet square. It contained some bookshelves, four chairs and a metal desk, and not much else. The profits were spent on new customer-serving facilities, people development and new ideas. Many times I have seen businesses fail because they overreached their financial capacity. You invested hard-earned capital in the business at the onset—stay with it. Spend the business' money only where it contributes to the business' further development. Do not decapitalize your business by withdrawing cash or taking perks. Keep an adequate cash reserve. Most businesses need ready cash reserves that can pay all operating bills for six months to a year. A line of credit is essential, too, but don't confuse available credit with liquid cash reserves. Be prepared to survive unexpected setbacks—they happen to most of us.

11. Don't waste time. Always keep a pad and pencil handy to supplement your memory. Write down all suggestions and commitments. Jot down a daily to-do list and update it every day. Never procrastinate! Do it now. One tends to think there will be more time later—it doesn't happen, in too many cases. Start early. Get to work ahead of your associates and be ready to start when they arrive. So many poor businesses waste the first several hours of each day because the leader isn't organized.

12. Support community activities. That tells your customers you care about them. Join a service club or other worthwhile community-service organization. Contribute some of your time and profits (but don't overreach your time limits by taking on too much).

Sometimes customers seem slow to appreciate a business' involvement in community affairs; but when this involvement is conscientious and sincere over a long term, it receives good recognition. Conversely, a business person's failure to participate in a community activity may prove very damaging. A good business leader has to recognize that matters of great importance to customers are matters of great importance to the business' survival, even if the business leader has little or no personal interest in the project.

Not all of us can achieve the rousing successes of some famous entrepreneurs. And yet, in this great country the opportunities for success are very real. For business leaders who expect the best of themselves and their businesses, who look for the good in their associates and their competitors, who change and adapt quickly while maintaining a clear focus on their central business purpose—for those business leaders, opportunity will often become reality.

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"The fundamental concept that makes everything work" at Circuit City, says President Sharp, is "to earn the dominant market share in every market where we operate."

"A Big Focus On Service"

Visit a Circuit City superstore and you'll be drawn to a red-tile walkway that entices you to stroll around the showroom, past a tempting array of high-tech products from stereos to microwave ovens.

The well-marked path, a sort of silent salesperson, does its duty as a minor part of a remarkably effective merchandising concept. Strict adherence to the details of that concept has propelled Circuit City Stores, Inc., from a small retailer in Richmond, Va., to one of America's most successful consumer-electronics and appliance chains.

With sales climbing about 40 percent a year and earnings rising even faster, Circuit City today is admired, feared and copied in a fiercely competitive segment of retailing known less for sustained profits than for volatility and high casualty rates. Even in 1988, a year of flat sales for the industry generally, the 111-store chain continues to set records and win bigger market shares in the Middle Atlantic, Southeastern and Western states in which it competes.

Other retailers, particularly small operators challenged by aggressive discounters, may wonder: How does Circuit City do it?

"There's no magic," Circuit City President Richard L. Sharp is quick to note. He says that success derives from how well the company performs in two seemingly mundane but crucial areas: strategy and execution.

"We believe we have a sound strategy for managing our existing business and for expanding, as well as the ability to execute that strategy," Sharp says.

A fundamental tenet of Circuit City's strategy is "to provide the customer with superior value, which means more than just a low price," Sharp says. "Clearly, you have to have competitive prices—few consumers buy electronics and appliance products without checking prices at more than one location. But you can't compete on price alone; somebody can always sell it for less."

Value, as Circuit City defines it, goes beyond price to include offering customers additional incentives such as a broad selection of brand-name products, informed sales assistance, full service after the sale and guaranteed satisfaction. "We have a big focus on service, both before and after the sale," Sharp says.



PHOTO: T. MICHAEL KEZA

"When you buy a piece of electronics equipment, you need someone to help you understand the options, and we believe we have the best-trained sales counselors in the industry. We adhere to the old adage that the customer is always right, and we back that up with a 30-day, no-questions-asked refund or exchange. More and more businesses are doing that today, but when we started doing it, a dozen years ago, it was very novel in our industry."

Circuit City also maintains toll-free phone lines, with trained personnel to field calls from customers who have complaints or problems. "If the customer is not happy with the way he has been treated in one of our stores or service departments, he can call us and we'll solve the problem," Sharp explains. "It provides an avenue for people who, for one reason or another, are timid about approaching management for a face-to-face encounter. . . . We turn around about 98 percent of those customers, and they become some of our best supporters."

Another key component of Circuit City's strategy—"the fundamental concept that makes everything work"—is, says Sharp, "to earn the dominant market share in every market where we operate."

To boost market share, the chain saturates its markets with aggressive, multimedia advertising. Into the mix it adds "intensive storing," with a heavy concentration of its own, self-defined "superstores."

Such stores, with showrooms averaging more than 30,000 square feet, not only are up to six times larger than ordinary TV and appliance stores but also are designed with a host of hidden persuaders to stimulate sales and customer good will.

In the superstores, nothing is left to chance. Even the showroom's ubiquitous red-tile walk is oriented toward the right, because studies show that people tend to favor that direction when they enter a store. "If you make one loop around that red walk, you're exposed to all the products we carry," says Sharp.

He adds: "We try to make our superstores as close to identical as we can in look, merchandise and execution. The overall appearance we are trying to give is one of a high-tech retailer who can merchandise these high-tech products. With a combination of lights, fixtures, colors and displays . . . a customer clearly gets the impression that here he can find the product he needs."

By offering customers attractive prices and other inducements to buy, and by saturating areas with advertising and up-to-date stores, Circuit City has established dominance quickly in nearly every market it has entered. For example, since opening its first Los Angeles store in November, 1985, the chain has built a market share equal to twice that of its nearest competitor.

The beauty of the strategy, from Circuit City's standpoint, is that when dominance in a particular market has been attained, other things begin to happen. Sharp explains: "Once we have the leading share, we can operate more efficiently than our competitors, which allows us to give our shareholders a well-above-average return and still provide an exceptional value to the customer. That generates a kind of snowball effect. As our market share grows, the more efficient we get. More efficiency allows us to give more to the customer, which gives us more business. The more business we get, the more we can advertise, and so on."

Still, Sharp recognizes that attractive new locations in Circuit City's existing territories are dwindling and that to sustain the extraordinary growth rates of the past, the chain will have to take its particular retailing style into additional regions of the country.

"At some point," he says, "we'll have to select where our next hub is going to be—Texas, New England, the Great Lakes, or what have you. I look forward to that. But, meanwhile, the good news is that we've got a couple or three more years of solid growth still left within our territories."

—Donald C. Bacon



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Egghead Software's name helps create the "relaxed environment" that customers need in talking about "a complex product like PC software," says Victor Alhadeff.

"Treat Customers With Respect"

When Victor Alhadeff opened his first Egghead Software store in 1984, he knew almost nothing about software and very little more about the retail business. His sales experience had been limited to selling women's shoes at Nordstrom, the Seattle-based department store, when he was working his way through college. But even that limited experience proved important to his success as a retailer.

When he went shopping for computers and software, Alhadeff recalls, he found the experience "intimidating" because of his own lack of knowledge and the failure of salespeople to advise him.

He put together the need for a good shopping experience with the lessons he learned from Nordstrom to create the leading retailer of software in the nation in less than five years. Alhadeff—through Egghead Software, based in Issaquah, Wash.—can make or break a new personal-computer program. If it isn't offered at Egghead, software can find itself in limbo.

"You see Nordstrom succeed in a new market against established merchants because of the way they treat the customer," Alhadeff says. "People want a positive, nonconfrontational shopping experience." That means a liberal returns policy at Egghead.

Egghead lets customers try out software, guarantees that a program will work, offers a very wide selection, supports products after the sale and takes back a program if a customer is unhappy with it for any reason.

If all of this sounds familiar, Alhadeff says, that's because it is. "There is little original about Egghead," he says, "but it's focused on service, convenient location, a clean store and fair shopping. We apply these basics with religious fervor."

Familiar as it seems, the strategy was new to the software business, in which many publishers refuse to guarantee that a product will operate as it is supposed to, product hype is rampant, and publishers can be paranoid about theft of programs.

Again, Alhadeff cites Nordstrom: "Their commitment to customer satisfaction and willingness to absorb the losses associated with improper returns stems from the attitude that the overall benefit of customer loyalty outweighs this. Nordstrom's basic philosophy is that people are fundamentally honest. And that's true. Treat customers with respect, and they return that to you."



PHOTO: EGGHEAD, INC.

Alhadeff says, too, that companies need to humanize themselves. That's the thinking behind the company's comical name and propensity to pun (Egghead has "eggsperts," offers "eggceptional" savings and "eggspands" its operations).

Although *Personal Computing* magazine dismisses Egghead as one of "10 computer dealers with names you couldn't pay someone to dream up (but they probably did)," Alhadeff stoutly defends the choice: "I think that seriousness is unrealistic and self-imposed, especially with a complex product like PC software. Most people need a relaxed environment to talk about it, and the Egghead name and egg puns break that down for first-time users."

When he is asked if these basic principles would work for a small retailer who has limited resources, Alhadeff says: "I'm hard-pressed to imagine whom this strategy wouldn't work for."

Even though Egghead is a discount operation, the person with a smaller business should not feel intimidated, he says. "You're going to have to charge a little higher price in order to provide for service and build your capability in that way." But Alhadeff thinks too many retailers focus too much on price. "Service is a bigger component in why people shop than price," he says. "All prices have to be is fair. Nobody wants to be gouged. And the small guy has the tremendous advantage of controlling the service level."

The secret, says Alhadeff, is not a great secret. It does not matter what the product or size of the company is: Execution is everything. Be fanatical about the basics, give customers what they want, believe in your product, price it fairly, service it cheerfully, and stand behind it.

"It's a matter of the vision of the management," he says. "You have to be a long-term player and be comfortable with it."

—Ripley Hotch



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"The Consumer Is The Boss"

By Robert T. Gray

James C. Tappan honed his selling knowledge in more than 30 years of running consumer operations of major corporations. He is now putting that experience to work in his own business-investment firm, Tappan Capital Partners, Westport, Conn.

In both careers, he says, his goal has been to "identify good companies that want to become better."

He offers this advice to companies wanting to keep on getting better:

"Develop a strategic plan carefully. It should determine the competitive environment, the strengths and weaknesses. Develop a road map of where you want to go in that environment. Set specific objectives to get there. It's a road map to the future—the most important way of assuring good success."

The key to planning for a consumer business, Tappan says, is an analytical ability "to identify and understand consumer needs and preferences, to recognize that the consumer is the boss."

That process, he adds, does not necessarily require extensive and expensive marketing research but can be based on intuition, good judgment and some grass-roots study.

For example, says Tappan, a veteran of the consumer divisions of Procter & Gamble and General Foods, he will frequently spend a day in a supermarket observing and talking with customers. He observes what the stores are offering, what people are buying in what order and what quantities. He strikes up conversations in which he asks customers about their preferences and other considerations that shed light on consumer trends.

It is also critical to remember, he says, that not only is the consumer the boss but a very volatile one—"consumer tastes can change very rapidly." All businesses struggle to be able to adapt to those changes, and new companies are started if existing ones falter.

Firms find themselves unable to survive in that type of competitive atmosphere for different reasons, Tappan notes, but he says that troubled companies often have common denominators. He warns managers to guard against:

Lack of focus: "They are trying to do too many things. They find themselves in business areas in which they are not comfortable, and they are diverting resources to nonproductive areas. Business people should recognize what they are good at and concentrate on that as their market niche."

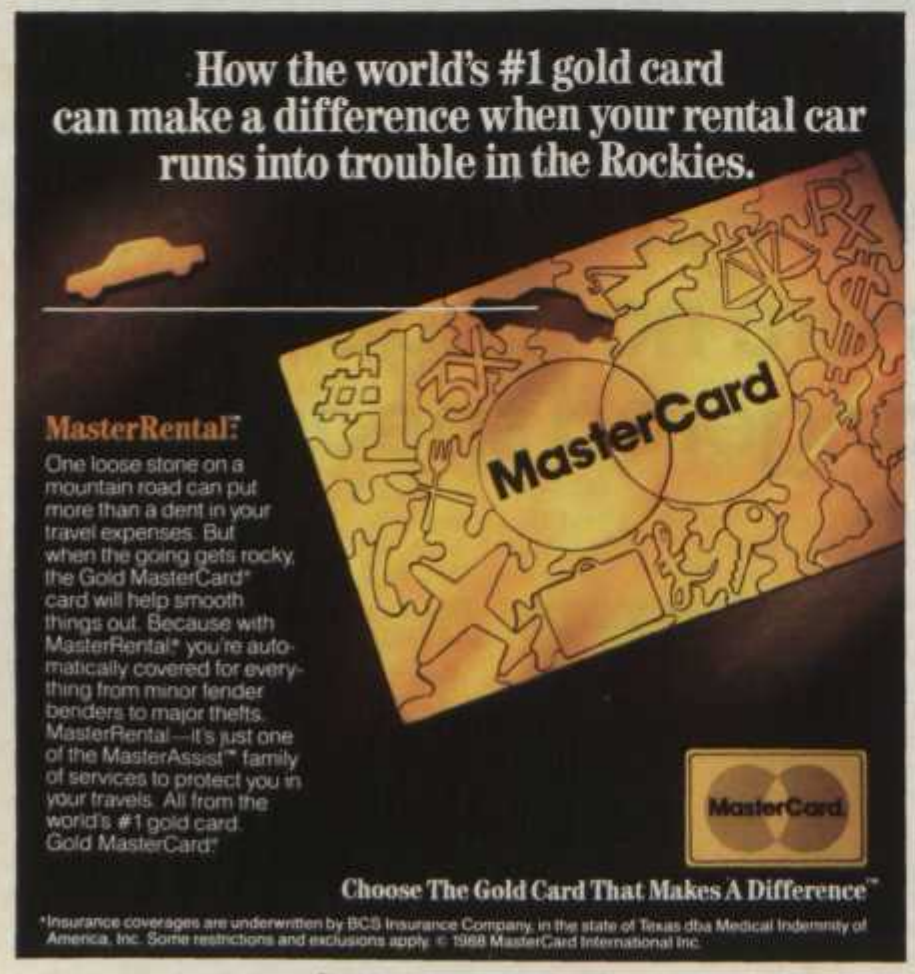
Excessive overhead: "Too many American businesses develop overhead structures, ranging from management to marketing apparatuses, that become a burden. Sooner or later those costs are going to mean trouble. Managers should make a determined effort, long before they get into difficulty, to slim down."

Lack of managerial skills: "Companies often don't have the management depth they need. There is an opportunity today to take advantage of all the restructuring going on in corporations and hire managers who are becoming available. But they often wind up in operations they are not familiar with. I would rather have somebody who is an experienced manager with 10-15 years' experience than a hotshot with terrific credentials and a year's experience.

"A related problem in this area involves the founder of a business that has outgrown the capabilities of the existing management. You get to the point where the company is doing $25 million a year in business and the entrepreneur still insists on making every decision.

"You can't possibly do that successfully. It is a leading example of an inability to adapt to changing circumstances when adapting can be critical to survival."

The key to running a successful consumer business, Tappan says, is a combination of "planning for the future and executing today's program." Some business people will spend so much time working on expansion that they fail to give the base business the attention it needs. Or they will become so wrapped up in today's problems they won't be ready to grow when they have



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to do so to survive. It's a fine balance but a crucial one."

Richard Echikson, chairman of Retail Consultants, Inc., Millburn, N.J., is also a former corporate executive turned entrepreneur. He worked for R.H. Macy Company, left to found a retail fabrics business that grew to 65 units, became executive vice president of the W.R. Grace Retail Group, which included such stores as Hermann's sporting goods, and then founded his present business.

Retail Consultants advises investors considering the acquisition, construction or improvement of shopping centers. Its services range from site evaluation to improved performance by tenants. In the latter role, the company identifies any problems that are keeping tenants of the shopping centers from realizing maximum potential and assists them in improving their performances.

In making such analyses, Echikson says, Retail Consultants finds that managers of troubled stores often fail to ask themselves such basic questions as "Who are my customers?" and "What does this store stand for?"

Managers who fail to ask those questions wind up making basic mistakes, Echikson says. He cites the case of a store that was doing well selling junior women's apparel but lost its focus. "It added a shoe department, probably because somebody's brother-in-law wanted to sell shoes, and then a lingerie department, and pretty soon it was hard to tell just what the owner was trying to do. You can't be all things to all people. You have to have a focus."

Echikson offers these suggestions to those in the business of selling:

Conduct market research: "Do exit interviews with your customers—ask them what they bought and why they chose those items. If they left your store without buying, learn the reasons for that, too. Did they find what they went into your store to buy? If not, why not? How did employee performance figure in decisions to buy or not buy? Stay on the sales floor as much as possible so you can monitor customer behavior for clues to what works and what doesn't in your sales approach. You can do more extensive market research inexpensively by hiring students to interview people about their attitudes toward your store."

Be sure your stock is clean: "This may seem so fundamental that it doesn't have to be said, but a lot of store managers don't adhere to this rule. If you don't have fresh, attractive stock, take your markdown and get rid of it. It's going to hurt you in the long run anyway. There's an old saying in the retail business that 'you're only as good as your goods.' It's as true today as it ever was."

Don't put too much emphasis on margin: "Sales people often look at their markups as money in the bank and set prices accordingly. But if the merchandise doesn't sell, the margin doesn't mean a damn thing."

Beware of overbuying: "Set a budget for what you plan to buy for your stock. Don't buy something just because you like it. Keep asking, 'Who are my customers? And how will this item sell to them?' "

Use cooperative advertising: "Find out what arrangements your shopping center, your suppliers, your merchants' association has for mutual advertising. It will give you more bang for your buck."

And Echikson can discuss from his own experience the importance of keeping a sharp lookout for trends that will have an impact on a business. His fabric-shop chain, which served the home sewing market, ran into rough seas in the late 1960s because of fundamental changes in American society. At that time, the number of women in the work force began growing rapidly and the market for home sewing materials shrank accordingly; the daughters for whom mothers had traditionally made clothes discovered all-purpose jeans, further depressing incentives for home sewing, and the emergence of discount stores made homemade apparel less economical.

He and his associates were able to sell the chain, but the experience underscored a cardinal rule of business, one that every entrepreneur in every line should be aware of: If you're not positioned correctly to handle change, it's going to run right over you. **NB**

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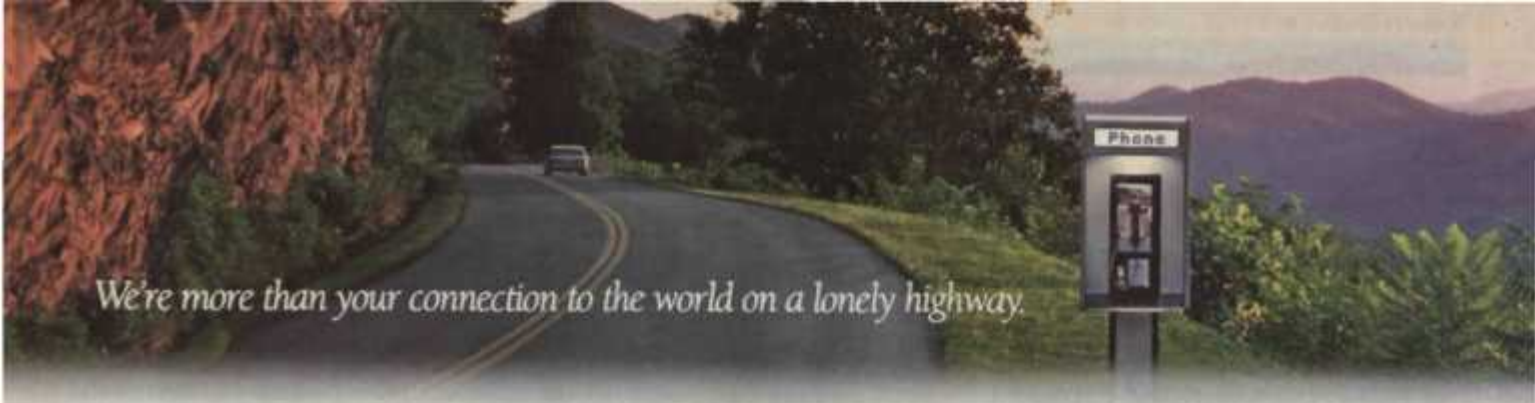
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COMMENTARY

NEC: "Political Cover" For Tax Increases?

By Warren T. Brookes

Washington will be a busy place between Election Day and the arrival of a new presidential administration and a new Congress. That could spell danger for taxpayers, especially businesses.

The reason is based in the creation nearly a year ago of something called the National Economic Commission (NEC), which will gain full speed in the post-election interim.

While the panel officially was created to recommend policies for debt reduction and economic stability, its actual purpose is to provide political cover for Congress as it faces the hard task of deficit reduction, our most serious economic challenge.

NEC's critics think this "cover" is primarily for the recommendation of a major tax increase—and that view was given credence by David Brinkley's interview with New York Gov. Mario Cuomo at the Democratic convention.

Cuomo, who was the principal architect of the NEC, said: "You are going to have to raise revenues. We have a device in place that will give us an intelligent judgment on that subject after the election—the [NEC]."

Robert Strauss, co-chairman of the NEC, told a conference at the Madison Hotel in Washington on September 20 that "we have deliberately avoided all open hearings of our commission until after the election. But from November 9 until the end of the year, we have scheduled open hearings every day."

Strauss admitted that to avoid controversy before the election, all of the focus was on reducing spending, not raising tax revenues. This followed an embarrassing item in the July 14, 1988, issue of the weekly publication "Tax Notes," which reported that the NEC "is considering four general ways to raise revenues, including a consumption tax (VAT), commission Co-Chairman Drew Lewis told congressmen July 13 at a Capitol Hill breakfast, according to Rep. Leon Panetta (D-Calif.).

"Under consideration are a consumption tax, a tax on cost-of-living increases in entitlement programs, excise taxes and some type of oil import fee Panetta said he hopes the commission will provide 'political cover' for Congress and the next President to engage in major deficit reduction."

But Strauss insisted that "there is very little sentiment these days for a major tax increase. We don't want to do anything that would harm the economy. All of our focus has been on trying to cut spending growth, and we know we have to go where the money is, and that means Social Security, Medicare, other entitlements and defense." He said that "the consensus is to leave income-tax rates and tax reform alone," but he left the door wide open for "raising taxes on consumption."

The basic premise of the Strauss talk was that "deficits do matter" and that something serious has to be done about them. The danger is that deficit reduction is so easily turned into an excuse to raise both taxes and spending.

Why do we need the NEC? Since the Gramm-Rudman-Hollings Act was passed in 1985, federal spending as a share of the GNP has been cut dramatically ... [and] the budget deficit has fallen to slightly over 3 percent of GNP.



Warren T. Brookes is a nationally syndicated columnist on economic issues.

Strauss admitted that "the public has got to be convinced that any new revenues and any painful cuts in entitlement programs do not simply go to finance other spending, but really do go to reducing the deficit."

The public's skepticism on this issue is justified. Studies show that since 1967, every dollar in new revenues has been matched and then some with about $1.30 in new spending. In 1982, Congress and the President cooperated on the so-called Tax Equity and Fiscal Responsibility Act (TEFRA), which was supposed to trade about $90 billion in new taxes for over $270 billion in spending cuts over the next three years.

We got the tax increase all right, but not the spending restraints. Expenditures rose even faster in fiscal years 1983 and 1984 than had been forecast by government fiscal experts, and the same thing happened in 1985, following the equally futile 1984 Deficit Reduction Act. Since 1981, revenues have risen a husky 75 percent, but spending has risen 79 percent.

We know what the problem is, and its solution is clearly not more taxes. It is spending discipline, and that was made possible long before the NEC was created. More to the point, why do we need the NEC? Since the Gramm-Rudman-Hollings Act was passed in 1985, federal spending as a share of the GNP has been cut dramatically—to 22.2 percent of GNP in fiscal 1988 just ended, down from 24 percent in 1985 and lower than the 22.7 percent of 1981.

At the same time, the budget deficit has fallen to slightly over 3 percent of GNP, down from 5.4 percent in 1985. In addition, the surpluses of state and local governments offset the federal deficit to such an extent that the net government deficit was less than 2.4 percent of GNP. Europe averages more than 3.5 percent.

Since 1985 under Gramm-Rudman-Hollings, federal spending has risen only 0.6 percent a year in real terms. If that same tight control were held through 1993, the budget deficit would be zero without any new taxes, using the present growth projections of the Congressional Budget Office.

This is why serious budget students such as Sen. Pete Domenici and Richard W. Rahn, vice president and chief economist of the U.S. Chamber of Commerce, argue that new taxes are not necessary—nor are elaborate "deficit-reduction plans" that might simply lure taxpayers into accepting a return to prior levels of spending and taxation.

This may be why both candidates were chary about endorsing the work of the NEC. It remains to be seen whether the election results will be regarded as a license for that panel's agenda, whatever that may be, or a death knell for its efforts. ■

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How To Sell Your Business

For a happy outcome, ask lots of questions and assemble a team of experts to help you.

By Charles A. Jaffe

Bill Sedgeman, a lanky man with a boyish smile, was always the star of newspaper advertisements for Community Bank in Bradenton, Fla. He wasn't chosen for his looks, or the cut of his suit or his prominence in the business community. Sedgeman appeared in the ads because Community was *his* bank, run *his* way by people *he* had handpicked.

After taking control of the bank in 1981, Sedgeman would tell customers that he could "get the job done when the big guys can't." So no one was more surprised than Sedgeman when he decided to consider a merger offer from one of the big guys, First Union Corporation of Charlotte, N.C.

"Big banks had told me, 'If you're ever interested in selling, call us,'" Sedgeman recalls. "But I'd never had a concrete offer. I didn't plan to sell; I didn't dream of it. But I had to look at what First Union could do for me and for the bank. They could take us farther than we would go on our own. And I had to think of my shareholders."

Sedgeman had his advisers review the deal and the implications of losing his "Community" identity to become part of a large, regional operation. He made sure that his own job and the jobs of his employees would be retained. The core of Community Bank, he was assured, would remain unchanged.

In June, 1987, Sedgeman announced that Community Bank would swap stock with First Union in a deal worth roughly $8.5 million. It was, he recalls, the same deal First Union had made to him six months earlier. "I asked every question I could think of to make sure this was right," he says. "When I ran out of questions, they said, 'Is there anything keeping you from making this deal today?' The answer was no, the negatives had been overcome. I was very happy with it. It was a great way to do a deal."

A year ago Sedgeman controlled a $50 million operation with two offices and 50 workers. Now, with First Union, he runs a bank that has nearly 90 workers, $105 million in assets and five branches. "If I had planned to sell this bank, I would have hired investment bankers and gotten a few offers and made the best deal," says Sedgeman. "But I've gotten what I wanted from selling my business and, in my opinion, that makes the merger an unqualified success."



PHOTO: DARUTA OTFINOWSKI

New York investment banker Arthur H. Rosenbloom advises prospective sellers to build a team of professionals who can help them make the best deals.

Professional deal-makers might scoff at the fact that Sedgeman looked at only one offer, but they would agree that satisfaction is the ultimate measure of success in the sale of a business.

The intermediaries usually involved in selling businesses—the investment bankers, lawyers and brokers—say that regardless of the profit, the deal is a failure if the man, woman or group selling the company is unhappy with the outcome. "The entrepreneur is, essentially, thinking of selling his first-born child here," says David R. Hoods, a division president for the Geneva Companies, a Costa Mesa, Calif., firm specializing in "middle-market" deals of $1 million to $100 million. "This is the most important financial decision most of these people will ever make, a once-in-a-lifetime deal. There can be no regrets. If the seller is not truly ready to discover the reasonable price for his business and to act on a good offer, the deal won't work."

Most owners who decide to sell simply want to get out of the business, or see it expand with resources otherwise beyond their reach, or make a deal that ensures their financial security for life. Some owners initiate the deal for these reasons; others, like Sedgeman, are willing to listen to an offer because it achieves one or more of these goals.

If the business has an established, effective management team, the entire field of buyers will be attracted. If the owner is the key to its success, the list of prospective buyers narrows.

If the owner is retiring or has lost interest, it signifies a management change that may scare off investors interested in buying a healthy, running operation. Conversely, an owner's desire to stay on may eliminate the company's competitors from the bidding process, since competitors might want the business only for its assets.

Almost every deal requires the owner to stay on during the transition. And a number of deal-makers say that, unless the owner plans to retire or the business is in trouble, most buyers expect management to stay in place when the sale is completed.

Once a business owner has deter-

Charles A. Jaffe is the business editor at The Morning Call, *a newspaper in Allentown, Pa.*

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How To Sell Your Business

Bill Sedgeman found that merging with one of the "big guys," First Union Corporation of Charlotte, N.C., provided what his Florida bank needed to grow.

mined that the company is going to be sold, the owner should assemble the team that will handle the negotiations. In most deals, this involves a lawyer and an accountant, plus an intermediary such as a broker or an investment banker. Some investment-banking or law firms do all of the work.

The company's lawyer and accountant may be the owner's longtime friends, but they may never have handled this type of transaction. If the seller decides to keep them on the team, it might be best to make them advisers.

Similarly, the business owner should find an intermediary best suited for the sale of the business. Some small-business brokers may not be equipped to handle manufacturing firms or mid-sized companies. The large investment bankers, on the other hand, often shuttle smaller company sales to their junior employees.

And some investment bankers and business brokers have specialties, either to be sought or to be avoided. The owner of several travel agencies, for example, might not get the best advice from an investment firm specializing in technology and computer companies.

"You want to find a 'Three Bears' situation, where you pick out the intermediary that is just right," says Arthur H. Rosenbloom, chairman of MMG Patricof & Company, a New York investment-banking firm.

"A prospective seller should not be shy about asking for references and calling a lot of them. The seller should ask if the intermediary was professional, got the price the seller set out for and how quickly a buyer was located and a deal was closed. The seller should ask everything that comes to mind before picking the guy he's going to put in charge of selling the business. ... Build a team that will do the deal your way and to your satisfaction."

Several investment firms say that a seller may want to ask a prospective intermediary for a business analysis. Make the intermediary come up with



PHOTO: MICKEY PEARO—BLACK STAR

figures for an acceptable bid and a reasonable asking price. The purpose is to find an intermediary whose expectations are in line with the owner's, or whose price range exceeds the owner's expectations for reasons that are supported by research.

When the team is assembled, the owner must prepare a selling document, which is a basic prospectus on the business.

This document, often up to 50 pages long, should include a company history, its state of incorporation, milestones and the raw materials used in production. It should also include, most experts say, an analysis of the business and its process for creating and marketing new products, a statement on the adequacy of the facilities and the work force, financial information, a forecast for the company and its market, and the owner's reasons for selling. The selling document should not include the asking price.

A business is sold in six basic steps: the search for potential buyers, the screening process, preliminary discussions, serious negotiations, a contract or agreement in principle, the closing of the deal.

Many intermediaries make bidders sign confidentiality agreements before revealing the company that is for sale. This protects the seller from the tur-

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moil that sometimes accompanies the announcement of an owner's intention to sell. Many bidders, too, remain anonymous as long as possible.

The seller often is not involved until the screening starts. The seller can eliminate a bidder for any reason, including personal animosity.

The negotiation process lets the seller determine the future roles of both the seller and the employees. Many offers have been rejected because the bidder suggested cutbacks and the family-oriented business owner did not want to see longtime employees get pink slips.

Whether a transaction is done by "limited auction" involving several competing bids, or on a one-to-one negotiated basis, depends on the seller and the intermediary. Not everyone agrees with Hoods of the Geneva Companies, who says that "one bidder is no bidders. There could be somebody out there who'll pay twice as much for the business."

"The bottom line is that the seller gets what he wants or is willing to accept," says Irving Coleman, counsel to the corporate finance division of Stevens & Lee, a Pennsylvania law firm specializing in mergers and acquisitions.

"If he only gets one bid, but it's got everything he wants, I'd recommend that he take it."

And while the sale of a business is always emotional, the intermediaries recommend that the seller look at the deal objectively, the way the buyer looks at it. Buyers don't look at a purchase as if they were buying somebody's "baby." It's strictly a business decision.

Intermediaries say that sellers who remember that and who look at their own companies without emotion often wind up making the best deals. NB

Buying Back Your Business

A company may be bought back in the hope of rekindling the entrepreneurial spirit that made it prosper.

By Charles A. Jaffe

When David Lee sold Qume Corporation to ITT in 1978, Qume had sales of about $100 million a year. When Lee bought the company back last June, it had annual revenues of about $275 million. But Qume, a manufacturer of computer equipment, was losing money at an alarming rate and had suffered a $4 million shortfall in the two months before Lee reacquired control.

"Originally, I thought it would take three months to turn the company around," says Lee, 50. "But we really did it during the first month, and, barring some bad problems in the industry, we should be profitable from this point forward. Because I was so familiar with Qume, I knew exactly what it would take to make things right again."

J.M. Miller and his family merged their Florida truck-trailer manufacturing business with Pennsylvania-based General Acceptance Company in 1966 for $5.8 million. But by 1972, General Acceptance was bankrupt, the stock Miller received in the deal was virtually worthless, and Miller Trailers was sold. By mid-1975, Miller Trailers was almost out of business. So Miller bought the business back for $2 million.

"It was one hell of an expensive lesson," he says. "Hindsight tells me it was a mistake to sell the company in the first place. But while I never expect to sell the company again, I can't say—after all I have been through—that I wouldn't listen to an outstanding offer."



PHOTO: KAREN T. BORCHERS

David Lee, shown here with a printer his firm manufactures, bought back a "much bigger" Qume Corporation for the same price he had received from ITT 10 years earlier.

Lee and Miller are among the growing number of entrepreneurs proving that it is indeed possible to go home again. Selling a business is an emotional decision usually done for sound business reasons or to secure a future; buying a business back is based on a combination of financial savvy, ego and a conviction that the entrepreneurial spirit that once made the company a success can be recaptured when the

Buying Back Your Business

Several years after he sold his truck-trailer manufacturing company, J.M. Miller bought the business back, and he says that "it has been fun" ever since. Miller is one of a growing number of entrepreneurs who are proving that it is indeed possible to go home again.



PHOTO: NICETT FERRO—BLACK STAR

founder returns to the helm.

Traditionally, the founder of a company could buy the business back only if the company was losing money, had management or industry troubles, or was suffering from the new owner's disinterest. But owner buy-backs increasingly are becoming part of the fallout from merger mania. Conglomerates that snap up available companies may sell back to the founder for various reasons. For example, the company may not be living up to expectations, or a founder who is indispensable to the business may be ready to quit, or a sale may be viewed as a way to reduce debt after a leveraged buyout.

Regardless of the circumstances, many who have repurchased a company compare it to being reunited with their "baby." And, like a proud parent convinced he can wean a child from bad habits, the owner sometimes overlooks faults when bringing the family business back into the fold.

While most executives who buy back a company hate to admit it, ego is often part of the decision. One Pennsylvania executive who bought his business back compares a company founder to a chef. After creating a great soufflé, he explains, the chef sells the recipe and watches as someone else takes over and makes soufflés that go flat. It may be illogical for the chef to get back into the soufflé business, he says, "but you know in your heart that your soufflé recipe is not a failure and that you can make the thing rise again."

"The founder of the company should know more about the company than anybody else," says Erskine Bowles of Bowles Hollowell Conner & Company, a Charlotte, N.C., investment-banking firm specializing in transactions of $10 million to $100 million. "He should know what went wrong and what can go right, and what is the fastest way to get things going again.

"But the guy has to be objective and make sure the business can generate the cash flow. I don't care if it is the company founder or an investor group or whoever; if the math won't work out, the buyer is going to be in trouble."

While business buy-backs come about for various reasons, most can be traced to a sale that occurred for one of two reasons: The offer was too good to refuse, or the company needed an infusion of capital to continue increasing performance. As a result, the person who buys a business back usually says he would sell the business if the same situation arose again.

David Lee, for example, needed to sell Qume to help the company maintain its rapid growth rate of 50 percent per year at a time when it had equity of less than $3 million. "We were too leveraged, and it was very difficult to go public at the time," Lee recalls. "Even today, looking back, there is no question in my mind that the decision to sell was right."

That decision looks even more correct in light of the terms under which Lee bought the company back. Under ITT—for whom Lee worked until he started Data Technology Corporation—Qume's sales peaked at over $300 million, and its assets quadrupled. When ITT put the company on the market, it asked for roughly four times what Lee eventually paid. Qume still had many of the managers whom Lee had hired, and most of the remainder of his team had gone to Data Technology, which he then merged with Qume after buying it back.

"I paid the same price for Qume that ITT paid me for it 10 years earlier," Lee says. "But the Qume I got back was much bigger, and it was a great fit with Data Technology. Because we had the same people, good products and Qume's distribution channels, I had no doubt that I could turn Qume around."

Like Qume, many companies change under new ownership. And although the firm may still bear the former owner's name, those changes may make the buy-back seem like the purchase of a different company.

Flynt Fabrics, an independent fabric manufacturer based in Greensboro, N.C., was losing money when Chuck Flynt sold it to Ti-Caro, Inc., in 1982. Flynt became a Ti-Caro vice president. But when Ti-Caro went through a leveraged buyout in 1984, Flynt watched as management considered liquidating his former company. While it had made money immediately after it was sold to Ti-Caro, Flynt Fabrics was losing money in a sagging market.

The business Flynt sold to Ti-Caro had three factories with sales exceeding $35 million. The company Flynt bought back in 1985 had two factories and sales of roughly $15 million. He has since returned the firm to profitability, adding two factories and raising annual revenues to about $40 million.

"I was a minority shareholder in a large company, and I had the opportunity to be a majority shareholder in a small company," Flynt explains. "I know that I liked running my own business better than I liked being part of a big company. I had some doubts, briefly, but I really can't say I ever doubted my ability to run this company successfully." And while Flynt made sure the numbers worked out before he bought his company back, the purchase was also made for personal reasons. Ti-Caro had asked him to move to its Gastonia, N.C., headquarters; he opposed the move.

Since rebuying his company, Flynt has learned to live with new disappointments. For example, while Flynt Fabrics has reached Flynt's sales and profit projections, gross margins have been

lower than expected. "The important thing for this company over the next few years is to be state-of-the-art and debt-free," Flynt says, "and those are two things that would have been tough to do as part of a bigger company."

J.M. Miller also faced disappointments after taking over Miller Trailers. After spending a year selling off the inventory that could be salvaged, he started building business with small contracts. The company lived from one pact to the next as Miller polished its reputation and built it back into one of the nation's premier trailer manufacturers.

Even with his greatest success, however, he faced new challenges and failures. Miller Trailers' work force peaked at 490 in 1984, when sales reached $40 million. But industry deregulation and consolidation cut heavily into revenues, and sales dropped to just $15 million in 1986. Miller now projects 1988 sales at $21 million, and the company's work force has stabilized at 250.

"It has been fun from the first moment I bought the company back," says Miller, now 68. "We've had our problems and struggles, but I've appreciated those things more the second time around. . . . When I'm unhappy that we can't do something, I think of the lesson I learned from selling this company the first time. That puts things in perspective."

Investment bankers and professional deal-makers say the biggest question they have when arranging a business buy-back is whether the former owner still has the entrepreneurial drive to make the company go. Business owners often surrender salary, family time and benefits in an all-out sacrifice to get a start-up off the ground, and they often achieve instant wealth and financial security when the company is sold.

Another concern is whether conditions in the industry have passed the former owner by. Investment bankers say that executives who stay active in their business or industry make the best candidates for buy-backs. People who leave the industry—particularly if that market is undergoing rapid changes, consolidation or deregulation—may want to run the company the old way. And while the owner's methods may have made the company flourish in the past, the same approaches may be ineffective in a changed market.

"Not everyone is willing to surrender the good life for the grueling hours it takes to run the business, particularly if the company needs to be turned around," says Bowles. "The former owner can't just come back, say 'I'm here,' and expect things to be great. There still has to be that fire inside, that burning desire to succeed."

In 1956, John Rudolph and his wife founded Rudolph Foods, Inc., a manufacturer of pork-rind snacks. Ten years later, the company, based in Lima, Ohio, was sold by Rudolph to Beatrice Companies, and he became a Beatrice executive. "I was 40 years old; I played it safe and put money in my pockets," says Rudolph, now 63. "But I had all that ambition. If I had put that into my own company, I probably would have done better than this company did as a part of Beatrice."

In 1983, Rudolph had an opportunity to buy a competitor, but he decided against it. "I couldn't compete with Rudolph Foods," he explains. "It would have been like turning my back on one of my children; it just wasn't in my nature."

Four years later, the Kohlberg, Kravis, Roberts leveraged buyout of Beatrice enabled him to repurchase Rudolph Foods. He bought the business back largely for his children, who are vice presidents set to take over upon his retirement. "We only owned this company for 10 years, which is not very long," Rudolph says. "Now we've got the security, we've got the old team back, we've got my children into the operation, and there is no reason why this company can't grow and expand like never before. My bones ache a little bit now and then, but my spirit is already 20 years younger. This has been wonderful."

The experiences of many who buy back their companies are summed up in trailer-manufacturer Miller's observations: "There are some people who can probably sell their company and walk away forever. And there are people like me who agonized over the deal when the company was hitting its low points. Coming back to something I thought was gone forever gave me a new perspective on business and made everything doubly exciting. Maybe somebody else could have turned this company around faster or could have done better with it, but they never would have had the fun or enjoyment I have had doing it." NB

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(All Times Eastern)	1st ½ hr	2nd ½ hr	3rd ½ hr	4th ½ hr
Top Business News	6:30	7:00	7:30	8:00
Financial News	6:35	7:05	7:35	8:05
Small Business News	6:40	7:10	7:40	8:10
Special Business Features	6:50		7:50	
CEO Close-Ups		7:15		8:15
Internat'l Business Line		7:25		

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A Victory On Minimum Wage

A business coalition put advocates of a higher minimum wage on the defensive for the first time in a half-century.

By Donald C. Bacon

Something unusual, perhaps historic, happened in this year's battle over raising the minimum wage: Business' arguments against the proposal not only won the day but may have changed the focus of the debate.

Traditionally, advocates of higher minimum pay have claimed the offensive. Cast as opponents of "a livable wage," business usually lost.

This year, the employers, led by a broad coalition of business groups spearheaded by the U.S. Chamber of Commerce, went on the attack with a plan and an arsenal of research. Instead of reacting to minimum-wage proponents, the coalition set out to prove that boosting the $3.35 minimum wage to the proposed $4.55 would mean fewer jobs and more inflation.

As a result, for the first time since the Fair Labor Standards Act was enacted in 1938, a proposed minimum-wage hike failed in both houses of Congress. "This is the first time since I've been here that the proponents were on the defensive when we've debated the minimum wage," said Sen. Orrin Hatch (R-Utah), who directed the Senate fight against the Democratic-sponsored measure. "We beat them intellectually; our facts were better than theirs."

Added Robert L. Martin, director of the U.S. Chamber's Employee Relations Policy Center and executive director of the Minimum Wage Coalition to Save Jobs: "We decided early on to make this a debate over jobs and inflation. We invested in studies and kept to our plan, and we succeeded."

The Minimum Wage Coalition to Save Jobs, chaired by Washington lawyer Richard Berman, is composed of some 150 business associations, 200 local Chambers of Commerce and 2,500 grass-roots activists, mostly small-business owners.

Armed with studies on the adverse effects of a higher wage, business' coalition already had set the terms of the Senate debate. Proponents of a wage boost were forced into a defensive role. Debate centered largely on the coalition's data, which demonstrated that a boost in the minimum wage would mean the loss of hundreds of thousands of low-paying jobs. "This was the first time that even the liberal economists admitted there'd be a loss of at least 200,000 jobs," observed Hatch.

Widely quoted by lawmakers was a paper commissioned by the business coalition and prepared by University of Chicago economists Ronald Krumm and Li-Wei Chao. The study documented a "ripple effect" that forces employers to boost the pay of higher-paid workers whenever wages rise for lowest-paid workers. Such an outlay with no offsetting productivity increase "must manifest itself in higher prices, a worsened international competitiveness and negative impacts on labor demand and employment," the study concluded.

The most effective weapon, in Martin's view, was a breakdown that pinpointed job losses ranging from 2,000 to 10,000 in individual congressional districts if higher minimum wages were imposed. "This," Martin said, "allowed us to localize the issue in a way meaningful to members of Congress and their constituents."

On the Senate floor, Edward M. Kennedy (D-Mass.), the bill's chief sponsor, argued that the current $3.35 minimum wage had been eroded by inflation since taking effect seven years ago. He vowed that he would not abandon "the men and women who have been left out and left behind," but rejected attempts to work out a compromise. Various opponents had urged amendments permitting a modest minimum-wage increase while creating a new "training wage" somewhat below the bottom level for regular, full-time workers.

Angry and disappointed, Kennedy already has pledged that next year "we will continue this effort." NB

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Calling All Cars: The Cellular Connection

By Mel Mandell



PHOTO: JIM STEM—BLACK STAR

With phones in 22 trucks, says Stanley Baker, foreground, his company, Professional Glass, of Tampa, now has 38 employees doing the work that used to require 55.

Business people who have installed cellular telephones in their sales fleets, delivery vehicles, work trucks and their own cars are increasingly describing these phones as the best investments they ever made.

That's a lot to say for a device that sells for up to $4,000 and can ring up monthly charges as high as $700. Yet for many small businesses, the phones' costs are far outweighed by the improvements they make in a company's efficiency and overall performance.

Cellular phones are now attracting new users at a rate of 75,000 a month. Prices are dropping, discounts are available in many large cities, and advances are being made continually in cellular-phone services and features. (The phones are called "cellular" because they use broadcast frequencies grouped in geographically defined "cells," making car phones far more widely available than they were when each phone had to have its own fixed frequency.) Companies that use cellular phones the most are generally sales or service firms, and they typically report that the devices help them respond to customers more quickly.

Lynda Kornbleet, president of Payless Insulation, in Houston, says she makes at least one additional sale a month through use of her car phone, and it takes only one sale to bring in more than the $300 she spends on average each month for the phone. Every sale counts, she adds, because her business is linked to Houston's now-depressed real-estate market. The company she founded 11 years ago installs insulation and fireproofing materials in residences and commercial buildings.

Kornbleet says that before she bought a car phone, a signal on her beeper to call her secretary would send her searching for a phone. If she was in her car, she would have to drive to a pay phone, find a quarter and make a call. Now, when her beeper sounds while she is away from the office, she can simply go to her car and use the phone at her fingertips.

Choosing a car phone is not simple, however. You should know how the car-phone system works and what your options are before you buy one. (See "A Phone Away From Phones," on Page 48.)

Even before you pick your way through the bewildering array of phone models, you must choose a carrier for your calls. Most areas with cellular phone communications are served by two carriers, as mandated by the Federal Communications Commission (FCC).

Although the territories served by competing carriers usually overlap, the services they offer can vary. For example, if your business is in Orinda, Calif., you might favor Cellular One, which provides reception in the mile-long Caldecott Tunnel west of Orinda; GTE Mobilnet, its competitor, does not. On the other hand, there may be parts of hilly San Francisco where GTE's reception is stronger than that of Cellular One. The only way to find out is to ask those now using cellular phones.

When you discuss the quality of reception with a present user, however, ask that person where the phone's antenna is installed on the car. Roof antennas are best; through-the-glass antennas are least effective.

Rates also vary. Some carriers, such as Metro One in New York, provide discounts for talkative users. Ask also about charges for service options. Some carriers charge for them. Others, such as GTE, waive such charges for customers who sign one-year service contracts. Options include blockage of outgoing calls, which some firms consider desirable for their delivery vans; block-

Mel Mandell is a New York writer who specializes in technology subjects.

As prices drop and features expand, cellular phones are becoming hot new tools—in salespeople's cars, delivery trucks, service vans—for boosting efficiency and outdistancing competitors who are missing the latest car-phone message.

age of long-distance calls, which is sensible for phones in cars driven by local salespeople; and call forwarding and message storage, useful for those without staff to collect messages.

Some carriers also offer a "hand-off" service to adjacent carriers. For example, Metro One can sustain calls in progress in vehicles entering its territory from areas served by surrounding carriers, but its competitor, Nynex, cannot provide that feature. However, Nynex does offer hand-off in New England, where it serves adjacent territories from Rhode Island to New Hampshire.

After you choose a carrier, you must visit an installer associated with your carrier to select a phone. There are three types: fixed, transportable and portable. The first two types offer up to three watts of broadcast power; the third is currently limited to less than a watt, to minimize drain on batteries. However, one manufacturer reportedly is preparing to introduce a portable that can be switched to broadcast at higher power in areas with marginal reception.

The types of phones differ also in where they can be used. A fixed phone is permanently installed and is powered by the car's battery. A transportable phone has its own batteries and can be moved from vehicle to vehicle, but it is larger and more cumbersome than the smaller, lower-powered, battery-operated portable.

In addition, the more portable a cellular phone is, the higher its price. Fixed phones cost $600 to $1,500. Prices for transportables range from $800 to $2,000. Portables cost from $1,200 to $2,900 on their own, and one model with certain accessories costs $4,000.

Fixed installations are for those who always use the same vehicle. Transportable models make sense if you have more than one vehicle but have only one in use at any time. For instance, John Davies, whose Santa Barbara, Calif., ad agency specializes in political campaigns, plugs his Panasonic transportable into his firm's Honda Civic when he uses it to deliver urgently needed materials. Most of the time, however, he uses the phone in his Saab.

Portables offer the least for the most, but they are preferred by some



PHOTO: ROBB KENDRICK



PHOTO: GTE

Lynda Kornbleet, above, president of Payless Insulation, in Houston, says her car phone increases sales. The 28-ounce GTE portable, left, has a battery good for 30 minutes of talk.

business people who want to stay in touch when they leave their cars. But portability sometimes doesn't pay off. Richard Peck of Orange, N.J., president of Dental Control Products Company, found his portable is almost useless at ball games because he can't carry on conversations over the roar of the crowd.

Moreover, because of their low power, portables occasionally can't capture the signal. Serrio Maccioni, owner of Le Cirque, one of Manhattan's fanciest restaurants, is delighted with the reception on his portable as he talks while walking among the city's skyscrapers. But when he drives into the hilly suburbs north of New York, reception sometimes deteriorates.

There is at least one portable that overcomes the low-power limitation, however. NEC offers an in-car booster that raises broadcast power to three watts when its portable is plugged in. But this adds $1,500 to the $2,500 list price of the phone.

A 1.6-watt fixed installation can be bought for only $600 from General Electric, but you must add about $100 for a roof antenna and $100 for a speaker/microphone. The speaker/microphone is most desirable because it lets you carry on a conversation while driving with both hands on the wheel. Another widely available feature for safety and convenience is a memory bank of frequently dialed numbers, with one-button dialing.

As their features expand while their prices continue to drop, cellular phones are winning more business advocates, such as Stanley Baker, of Tampa, who describes the cellular phones in his 22 work trucks as "a damn good investment." Since the phones were put in last year, he says, his company, Professional Glass, Inc., of Tampa, has been able to install as much storefront glass with 38 employees as it used to install with 55. And before the phones were put in the trucks, Baker could only "pray" that his drivers would remem-

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ber to call in for their next assignments, he says.

AHM Graves, Inc., found that car phones as a sales incentive pay off more than they cost to acquire. The Indianapolis-based real-estate agency is now giving car phones to all of its salespeople, says Ronald Spencer, executive vice president. The first seven are averaging 20 percent higher sales.

With such impressive gains in business efficiency and productivity reported by so many small companies that now have phones in their cars and trucks, the cellular phone appears certain to become a standard business tool. **NB**

To order reprints of this article, see Page 80.

A Phone Away From Phones

Cellular phone service was introduced commercially less than five years ago, and usage already far exceeds early projections. By the end of this year, about 2 million Americans and a scattering of Canadians will have phones in their cars or boats.

Unlike earlier car phones, each with a fixed broadcast frequency, cellular phones can operate on any of 666 frequencies (or 832 in some large cities). Each carrier divides its territory into many cells, and at the center of each cell is a low-power transmitter-receiver tied to the conventional phone system. Each central transceiver can handle up to 72 frequencies, or channels.

Though the arrangement of frequencies by cells vastly increases the number of phones that can be in use, it does mean that no frequencies can be alike in cells that border each other. So when a caller using a frequency in one cell crosses the electronic boundary into an adjacent cell where different frequencies are in use, preventing a break in the connection requires that the call be "handed off" automatically to a channel on a different frequency. This computer-controlled transfer takes place so quickly that users are not aware of it.

Nonetheless, sometimes all channels in a cell are occupied—such as in the center of a large city during a peak calling time. This cuts off conversations of those driving into the cell or blocks the response when a number is dialed. Usually, the call can be placed after waiting a few seconds.

Carriers are planning to "digitize" their systems in a few years to enable them to support four times as many simultaneous conversations per cell. In the meantime, the Federal Communications Commission has assigned more frequencies, permitting each carrier to support 416 instead of 333 channels each.

In addition, carriers frequently reconfigure their systems, changing the sizes of cells or shifting central transceivers in order to improve service and eliminate the "dead spots" where signals do not penetrate, usually because of an obstacle such as a hill.

Some carriers also plan to introduce reception into long tunnels, just as Cellular One has added service in the Caldecott Tunnel in the East Bay section near San Francisco.

Equipment is upgraded continually. For example, at least two companies—GoFax and Medbar—supply portable facsimile machines that can be hooked up to car phones. Even if you are out of your car, the machine—if it is plugged in—can receive documents. By adding a device called a modem to your car phone, you can use it to transmit data from a laptop to a central computer.

The major advance still to come for cellular phones is continent-wide locating of car phones. At present, anyone who wants to call a cellular phone outside the caller's "home" territory must know the location and the unlisted "roamer-access" number in the area being called. In time, a caller will simply dial a car phone's number, and computers will track it down and make the connection.

All cellular-phone numbers are unlisted, which is just fine with many users. But some salespeople include their cellular-phone numbers on their business cards or give the number to important customers. These salespeople don't want to miss any opportunities to be of service, even though they are charged for air time, which can run as high as 90 cents a minute for incoming—as well as outgoing—calls.

SPECIAL ADVERTISING SECTION

Southern Germany

By Wolfgang Robinow



PHOTO: D & J HEATON—UNIPHOTO

It used to be said that while most people worked to live, Germans lived to work.

This may have been true of previous generations of Germans, but it is not true of Germans today. The new breed of German has an attitude about work that differs considerably from that of his ancestors. For example, Germans now average 1,700 work hours a year, compared with an average of 2,100 hours for Americans. Germans also have more holidays and take more and longer vacations now than workers of most other countries.

Yet Germany still has the fourth-highest gross national product in the world. It has the world's largest volume of trade and has the lowest inflation rate in the industrial world.

No wonder foreign direct investment in the Federal Republic of Germany exceeds $350 billion.

As in most industrial countries, the backbone of the German economy is made up of thousands of small companies, with annual revenues of $5 million to $50 million. The largest concentration of these small and midsized manufacturing firms is in the southern states of Bavaria and Baden-Württemberg.

Wolfgang Robinow, former director of the U.S. Trade Center in Frankfurt, is a consultant on U.S.-German trade and frequently writes on business and trade between the two countries.



PHOTO: CHARLES HARRITT—ARCHIVE

Southern Germany is famous for fairy-tale castles, like Neuschwanstein in Bavaria, and space-age industrial facilities, like this Bavarian Motor Works plant.

Bavaria

In 1984, three entrepreneurial German engineers, formerly employed by an American high-technology company, developed a computer-controlled machine, called a die-bonder, to attach tiny microchips to circuit boards with incredible precision. Next, these engineers developed a means of linking the chips to other components using gold wire of microscopic thickness. Today, their firm, located in Munich, produces 36 percent of the world's die-bonders.

This is but one of hundreds of stories that illustrate the drastic change Bavaria has undergone in the years following World War II.

Of the 41,000 new jobs created in Bavaria in 1986, 33,000 were in electronics and electrical or mechanical engineering. About 40 percent of Germany's software companies are in Bavaria.

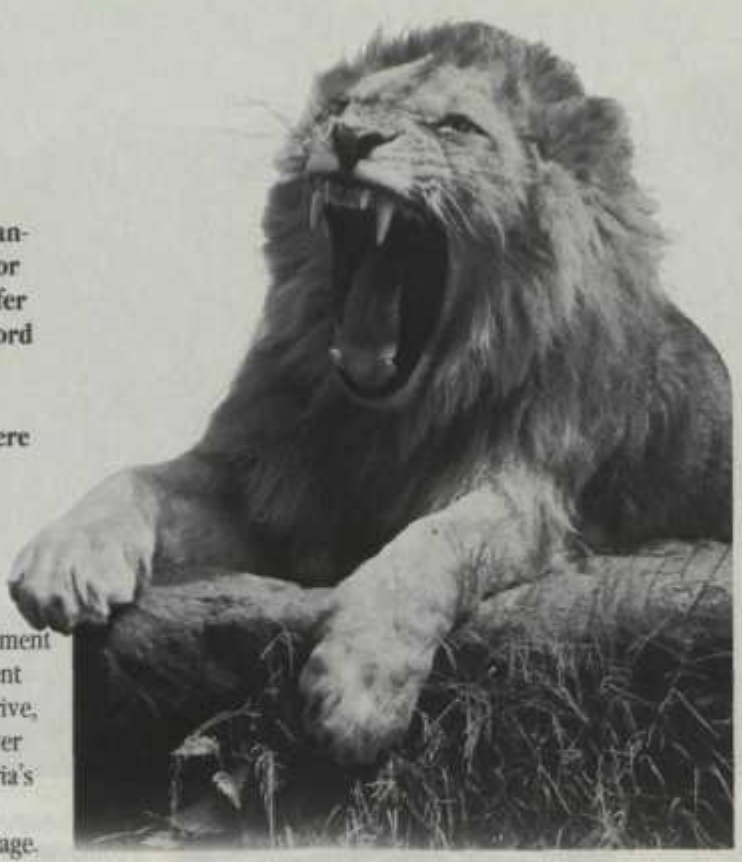
In all, over half of all jobs in the state are in the high-tech industries. In fact, Bavaria often is referred to today as the "Silicon Valley" of Germany.

Bavarian exports total $48 billion annually. About $7 billion of these exports are to the United States, while Bavarians import about $2.7 billion from America.

Although the manufacturing sector still accounts for 42 percent of the Bavarian

Expanding in Europe?

Why so many companies are roaring about Bavaria.



High-performance companies considering location or expansion in Europe prefer a base with a proven record for high performance. That's why so many are roaring about Bavaria. Here are some of the main reasons:

1. Bavaria is West Germany's largest state with a no-nonsense commitment to values such as independent thinking, entrepreneurial drive, and a strong work ethic. Over the past two decades, Bavaria's GDP has increased by 25% more than the national average.

2. Bavaria's technically advanced economy employs one-fourth of all Germans active in electronics and electrotechnology. It is the center of Germany's aerospace industries and excels in mechanical and automotive engineering.

3. Bavaria has a high concentration of user industries of advanced technology products – with electrical and mechanical engineering, automakers and aerospace industries in the lead.

4. Bavaria is a leading center of research in Europe – the home of the famous Max-Planck Institute and the Fraunhofer-Gesellschaft. More R&D staff are employed by Bavaria's industry than by that of any other federal state.

5. The Bavarian economy creates more new jobs than any other major German state. The state continues to attract future-oriented people from all over the country – on the average more than 20,000 a year.

6. Bavaria is committed to fostering entrepreneurial drive through cutting red tape, strengthening the state's infrastructure and supporting education, research, technology transfer, and a variety of investment incentives.

Not bad for a state known for beer and a charming lifestyle. If your company is looking for something to roar about in Europe, take a close look at Bavaria. You might be in for a rewarding surprise.

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economy, the service industries (33 percent and growing) are catching up fast.

Many of the large Bavarian manufacturing companies have become almost household names in the United States: BMW and Audi cars, Siemens medical-technology equipment, Deckel machine tools and many others.

The German aerospace industry, which is centered in Bavaria, got its start with development of an aircraft engine by the son of the man after whom the basic automotive engine is named—the Otto motor. Otto's son developed aircraft engines for a company whose logo is a blue propeller on a white background: Bavarian Motor Works, or BMW.

The only company located between the United States and the Soviet Union that develops manned space laboratories, MBB/ERNO, is located in Bavaria. This company's manned space laboratories have repeatedly been used in the U.S. space-shuttle program.

The basic building blocks of most high-tech products are RAM and DRAM chips, and they could not be manufactured without pure silicon. Wacker-Chemitronic, of Burghausen, near the Austrian border, produces half of the world's pure silicon under a patent originally granted to Siemens. And Siemens is the largest employer in Bavaria.

These few examples of today's Bavaria show its readiness for the economic world of the next century. To ensure that Bavarian firms will continue on the cutting edge of technological change, the government has nurtured growth there of extensive facilities for research and development. These facilities are modeled after American technological-development centers like Highway 128 around Boston and the research triangle of Durham, N.C., around Duke University.

The two largest Bavarian organizations for basic and applied research, the Fraunhofer Gesellschaft and the Max-Planck Gesellschaft, have altogether some 20 research centers in Bavaria. They are well funded and can afford to attract top scientists from throughout the world, including many Americans.

Among the reasons for Bavaria's fame throughout the worldwide computer industry are the highly specialized trade shows held at the Munich fairground. These shows attract thousands of domestic and foreign visitors, though they cannot compete with the number of tourists—17 million a year, 20 percent of them foreigners—who are attracted to Bavaria.

Baden-Württemberg

A car for every family is still thought throughout the world to be the exclusive privilege of Americans. But in the state of Baden-Württemberg, the car-to-people ratio equals that of the United States.

This is the region called the "Mittlerer Neckar," after the river that runs through it. Stuttgart, the state's capital, is in the middle of this region, which has a population of 600,000. The people of the region have the highest standard of living of any people in Germany.

When you approach this region, particularly from the air, you cannot help but notice how the whole area pulsates with economic and industrial activity.

Thousands of small, neat houses with gardens surround 20-story buildings. The

Bavaria's Hospitable Economic Climate

By Franz Josef Strauss

Since the end of World War II, economic and trade ties between the United States and Germany have developed in a very satisfactory way.

These ties also have helped Germany regain acceptance in the community of Western nations.

The world is shrinking more and more. This has created awareness that problems can be solved only by cooperation, making trade and technological exchanges mandatory.

Only worldwide open trade and economic relationships can strengthen the economic power of our countries and guarantee economic growth for all nations around the globe.

Europe has started on the road to a true Common Market. From 1992 on, Europe will be the largest domestic market in the free world.

There will be 60 million more consumers in this market than there are currently in the United States.

Right now, Bavaria has become the preferred location for investments and production.

One of the factors contributing to this leadership is the above-average growth of its economy.

The favorable economic and business climate in Bavaria led many companies in the fields of aviation, space, electronics, computers and automobiles to settle there.

There is no doubt that Bavaria's excellent infrastructure, enhanced by the new airport, Munich II, as well as its highly qualified workers, skilled in applied technologies, and its scientists and engineers are additional incentives for coming to Bavaria.

The future calls for quality and qualification.

You will find both in Bavaria.





Franz Josef Strauss, left, was prime minister of Bavaria at the time of his death in October. Lothar Späth is prime minister of Baden-Württemberg.

Baden-Württemberg Welcomes Free Trade

By Lothar Späth

Standing still is equal to taking a step backward.

Nothing is more ephemeral than success, which must be earned over and over again.

This is why Baden-Württemberg's economic policies concentrate not only on foreseeable structural changes—like the decrease in jobs in the automotive industry—but also on the long-range challenges that Europe's internal market will create in 1992, when all internal trade barriers are removed.

We are aiming at a Europe not barred to the outside, a Europe even more open than it is today.

The new dynamics of this huge consumer market must, in the opinion of the people of Baden-Württemberg, also create an impetus for trade exchange with our partners overseas.

Baden-Württemberg is an open country that does not block out foreign investors or exporters.

On the contrary, Baden-Württemberg's economic well-being is based on opportunities for, and guarantees of, free trade worldwide.

SOUTHERN GERMANY

A worker grinds brushless-motor rotors in a plant in Baden-Württemberg, a region noted for its craftsmen.

gardens are small because space is at a premium in this country. Land prices are about $30 a square foot, and in some places the price is more than 10 times higher.

Baden-Württemberg, which was created by Allied fiat after World War II, is one of the most industrialized of the 10 German states, and one of the most industrialized areas in Europe.

This development really began to gather speed after the war.

Before the war, the state was largely an agricultural area, with few major industries. The region had always been considered poor, and some parts of it were in constant need of federal help, then from Berlin.

But the war changed this. There were no natural resources that could be converted into economic growth. There was farmland, of average yield, but the family farms decreased in size because of the people's ingrained sense of justice. If there was more than one child in a family, the farm was divided when the father died.



PHOTO: CHARLES GUPTON—THE STOCK MARKET

Repeating this over several generations made farms small.

Faced with such a predictable and unattractive future, many thousands of residents of Baden-Württemberg emigrated to the United States. Those who stayed behind concentrated on perfecting their skills. Small machine-shop operators, toolmakers, plumbers, welders and others of the traditional guilds and crafts came to the fore.

From the Black Forest, in the western part of the state, cuckoo clocks began emerging. Then came watches and other clocks, all of which are popular in America. These were the foundations on which were built industries producing precision parts. Many of the inventions, perfected by craftsmen during several centuries, answered a need to improve living standards.

The first cars were designed here by two men who had at first competed with each other: Gottlieb Daimler, who named his cars the "Mercedes," and Karl Benz. In 1926, their firms joined under the now-famous name Mercedes-Benz. Their early cars were powered by the landmark internal-combustion engine designed by the same Otto whose son started with BMW.

Today, Daimler-Benz, the company that makes the Mercedes-Benz cars, is the biggest firm in West Germany, with annual group sales of $37 billion.

The people of Baden-Württemberg are known for their thrift, diligence and reliability. Germans elsewhere, in fact, sometimes refer to people of this area as Tüftler, meaning tinkerers. Many of these tinkerers have developed products that are sold today throughout the world. For example, Heinrich Lanz built the first sturdy, one-cylinder tractor in 1921. By the time World War II came, Lanz was known in every farming country. In the early 1960s, Lanz was acquired by John Deere.

The region also is home to some of Germany's leading service firms—software developers, credit-card companies, insurers and many others. But despite the prominence of such service businesses, about one half the $150 billion economy of Baden-Württemberg is accounted for by machine-tool, electronics and automotive manufacturers. About one third of those firms' production is exported, 18 percent of it to the United States.

Many new or improved industrial techniques have resulted from close cooperation among universities, research facilities and in-house research done by industry in Baden-Württemberg. These efforts receive limited financial support from the government. The proximity of such extensive research facilities likely influenced the decision of IBM and Hewlett-Packard to locate near Stuttgart.

Bavaria and Baden-Württemberg have something for everyone. With manufacturing, agriculture and high-tech industries, the region is rich with opportunities for businesses of all kinds.

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Starting Over Against The Odds

A growing number of corporate executives are going into business for themselves.

By Harry Bacas



PHOTO: RICK GAPPAPORT—BLACK STAR

After his job as electric-company manager vanished, Dave Calvert, right, bought a Salem, Ore., bookstore that he runs with Holly Wright, Lynn Cyr and Sharon Calvert.

Looking back on how he was fired last year from the presidency of Modern Talking Picture Services, William M. Oard says: "I will never cease to resent the way I was treated. I spent 39 happy years with that company, and they just came in one day and said goodbye."

Oard, now 61 and president of the Ideal Printing Company in St. Petersburg, Fla., had been with his former company since 1948. His abrupt dismissal followed a hostile takeover of the company.

The firm where he works now is a lot smaller, but Bill Oard owns it, and he runs it his own way. "The guy they brought in at Modern was a harasser," he says. "Harassment is not my style. Here I don't have to put up with that kind of bull. In your own business *you* set the style."

Oard's belated entrepreneurship is a growing phenomenon. Increasingly, the new owners of the 400,000 businesses started each year—and the small businesses that change hands—are executives fleeing a corporate downsizing, merger or reorganization.

"We are seeing almost double the number of corporate executives going into business for themselves that we saw three years ago," says James Challenger, president of Challenger, Gray and Christmas, a national outplacement firm in Chicago. "These are not the young hotshots dying to run their own show, but older people coming off high-level jobs. They are not people with a psychological need to run their own companies," he says. They are "executives who liked the corporate world but whose jobs may no longer seem secure."

And Challenger says there is an amazingly high success rate for these executives-turned-business-owners.

Bill Oard's newly acquired printing company did as much business during his first nine months there as it did in the preceding year. That may be because when Oard is not introducing modern management methods to improve productivity and accountability, he is out in the community attracting new customers.

Oard's former company distributed public-relations and information films for corporate clients nationwide. Oard was diversifying and streamlining operations, and he had moved company headquarters from New York to St. Petersburg in 1979. Then last year Modern's parent company lost a hostile-takeover battle to an Australian conglomerate. The new regime pushed Oard out.

Today Oard has 10 employees instead of 290, and he has annual sales of $600,000 instead of $16 million. "We seem to be making money, and business is growing," he says, but he will never forget the shock of being fired. "It was very depressing. It takes you a while to get over that. My health was good. My children didn't have trouble with the cops. I had a fairly tranquil home life. But I lay awake nights, thinking.

"You know, in this country, you are what you do. And I no longer had that identity. I kind of floundered around for a while, wondering what I should do. It's not easy for a man of 60 to get a job like the one I had."

Oard knew he wanted to stay in St. Petersburg, a city he and his family had come to love. He began to wonder about going into business, maybe buying a printing company. He knew a little about printing; his former company had its own printing operation. He asked his son David, who had experience with several printers, whether he would be interested in a position where he could start getting some equity.

With $350,000 that he could put into a business, Oard figured he wouldn't have to go into hock. He could limit his risk. He thought, he says, that "if the

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IBM The Bigger Picture

Starting Over Against The Odds



Shown with son David, fired executive William Oard, right, bought a Florida printing company and found that when you run your own firm, "you have to be ready to do everything."

PHOTO: MICETT FERRO—BLACK STAR

whole thing disappeared, it wouldn't ruin us, we wouldn't starve."

With his son's help, Oard worked out a deal for Ideal Printing, gave the owner cash plus a note secured by the business and spent some more money to buy a new four-color press.

Oard soon realized that heading your own business is a lot different from running a large company for somebody else. "For one thing, you can't sit at your desk and ask for staff services. If you want something done, you have to do it yourself. You have to be ready to do everything, and you'd better enjoy it. In your own business you can't go home if something's wrong.

"But when you get that first order, how proprietary you feel! And when you get that first check, that's *yours*—even if not for very long. That feels pretty good."

Oard says he isn't sure what he would do if somebody offered him another high-level, high-paying executive job. Although leaving the corporate world means "an end to the prestige, the power and the time for all the pleasant ceremonies of executive life, it also means you don't have to dance at the end of someone else's string."

Oard's transition from corporate life is typical, says Andrew Sherwood, chairman of Goodrich and Sherwood, New York-based management consultants. His firm counsels a lot of executives in similar situations. He says the first prerequisite for anyone thinking of leaving the corporate ladder is a psychological readiness to go it alone.

"After that," Sherwood says, "you need to have either a strong product or a strong service around which to build a company. And you need to be a strong manufacturer or a supersalesman or a financial whiz."

Consultant James Challenger looks at two factors about a client—age and sales ability. "They must be under 50 to think of going into business," he says, "because over that age, we find, they don't have the mental and physical stamina to get through those tough first years." And sales ability is important, he says, because "most small businesses succeed or fail on sales. You may think you're a great administrator or a great manufacturer, but if you can't sell, you probably are going to fail."

But there are starting entrepreneurs who, like Bill Oard, can defy that age limit. No two executives who move successfully into business do it the same way. Consider the varied examples of David Calvert, Clifford W. Williams and Regina McManus:

David Calvert, 53, was manager of the Salem, Ore., division of Portland General Electric, a regional electric utility. When a 1986 reorganization replaced his boss and abolished the division structure, he was given an office with a telephone and nothing to do.

Calvert was so angry that he ignored outplacement counseling. "I wasn't going to take another job and be treated like that again," he says. "I was psychologically destroyed.

"I wanted to stay in Salem, and I wanted a business I could own and operate," says Calvert. He had $60,000 in cash and could put a mortgage on his house.

After talking to brokers and examining several businesses' financial information, Calvert finally bought Book World, a downtown bookstore, from a man he knew. He had always loved books. The price was $85,000 in cash, plus time payments.

He began to advertise. He attended booksellers' conventions. He organized sidewalk and in-store promotions. He installed a $24,000 computer system that tracked sales, controlled inventory, kept accounts and enabled direct electronic ordering.

At the power company, Calvert had supervised 200 employees, managed an $18 million budget and had a salary of $65,000. Today he has three employees, his annual sales are $200,000, and he earns $12,000. But business is growing, and he feels he is building for the future. "I get great satisfaction," Calvert says.

"I love what I'm doing. But I've never worked so hard to make so little money."

Clifford W. Williams, 64, has been in business for himself since 1968. A native Nebraskan and an electrical engineer, he worked for Northwestern Bell, Western Electric, United Aircraft and IBM before returning to Nebraska to build a controlled-environment plant in Aurora. He manufactures microcircuits for customers such as ITT, AT&T, Western Electric and IBM.

Williams had been with IBM for 15 years and was on the corporate staff as senior engineer in charge of advance planning for computer memories when, in 1964, he found he had a heart problem and took early retirement. But retirement didn't mean inactivity. He undertook assignments for other companies and eventually returned to IBM for a while.

He formed one company in 1967 in Hartford, Conn., to make terminals for a Ford Motor Company direct-entry parts-ordering system for dealers. He sold the company a few years later.

Williams started his present company, International Sensor Systems, in Avon, Conn., and then moved it to Aurora. It began by printing circuit chips for the first digital watches. Now it makes computer parts, optical bar-code readers and timers for space-flight equipment.

Despite coronary-artery surgery in 1975 and again in 1983, Williams has stayed on the job. He has 30 employees and expects to do $2.5 million in sales this year, double what he did last year.

Williams thinks his business success owes a lot to his having worked for IBM and "being exposed to that company's planning, risk-taking, analysis and ability to sell products."

What motivates him and a lot of other entrepreneurs to keep going, he

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says, is "the fear of not being successful, not getting this thing to work. You've got to have a willingness to put up with anything to make it work. And you have to have alternatives, so that if one way doesn't work you already are thinking of another way."

Regina McManus, 42, was an associate attorney with Smith, Johns and Smith of Towson, Md., handling criminal, domestic, bankruptcy and corporate law cases. She left the firm five years ago to start a steel-contracting business with her brother.

"The law firm was moving, and I didn't want to move with it," she says. "And I wanted to try business on my own. It was the old thing of wanting to be independent."

Now McManus is president and major owner of Mid-Atlantic Steel Contractors, Inc., in Ellicott City, Md. The company installs reinforcing steel in bridges and high-rise buildings in Maryland, Virginia and Washington.

McManus' brother, an experienced steel engineer, is vice president, and his wife, a C.P.A., organized the accounting system.

McManus used $10,000 of her own and $20,000 borrowed from friends and relatives to open an office and start bidding for jobs. Because contracting is a labor-intensive business without a lot of equity, it was only after the company began generating some receivables that it could offer any collateral for a line of bank credit.

"I was my own secretary for three years," says McManus. "I hated it. But you do what has to be done." She had to learn a lot of things, like how to deal with contractors who get behind their schedules and want to be bailed out with overtime, how to ask for contract changes in writing and how to get hard-hat workers to take a woman colleague or boss seriously.

After three years of negative cash flow, the business became profitable in 1986. It now has more than $2 million a year in sales and employs 50 or 60 workers in the peak building season.

McManus says she misses the intellectual challenge of legal research and writing, but she adds: "I wasn't so well established in law that I was losing a lot by leaving. And I use my legal knowledge constantly here."

If you are a professional person or an executive and you want to move successfully into business, she says, "you have to be an independent person, you have to be willing to take risks, you must have confidence you can do what you're doing, and you've got to be positive."

And sometimes, consultant James Challenger adds with a laugh, you may even have to ignore expensive advice. He says he still hears from a man who, at age 59, spurned his advice and went into business as a manufacturer.

"He calls me every year," says Challenger. "He tells me how well he's doing and asks where he can borrow another million. He's doing all right, and he wants me to know it." NB

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Mack Trucks' Turnaround

By Julie Candler

The Mack bulldog is getting lean, but he's strong and tough as ever and producing trucks—including a new Baby 8—that are built like, well, like a Mack truck.

How Mack Trucks, Inc., of Allentown, Pa., is paring its operating costs while developing an entirely new line of products offers a lesson in how to succeed against tough competition.

Mack's goal, says John B. Curcio, chairman, chief executive officer and president, is "to reduce the cost of manufacture and give users the lowest life-cycle cost." Another goal is to be a more aggressive global competitor. (Mack is already sold and serviced in 77 countries.) The firm is well on the way toward another goal: to tailor an entirely new lineup of vehicles for specific-niche customers by 1991.

The changes Curcio has made since he became president in 1980 are giving the firm a bulldog grip on improved market share and profits. In August, Mack moved past two competitors into second place with 19.2 percent of retail sales among U.S. manufacturers of heavy-duty trucks. That was a gain of more than 70 percent over February, when Mack had an 11.2 percent share of the market. Navistar International Corporation of Chicago held the lead in the August report with 26.7 percent of sales.

The profit picture had begun improving even before that turnaround as a result of cost-cutting efforts. Net income in 1987 was $4.09 million, or 14 cents per common share, compared with a net loss in 1986 of $30.5 million, or $1.06 per common share. Earnings for 1988 are expected to be considerably higher than those for 1987.

Mack's niche-picking strategy is a major factor in the turnaround, and the newest addition to its line fits into that plan. The CM400 is a Baby 8, a term coined by Mack. Its gross vehicle weight puts it into Class 8 (33,001 pounds and over), which has been Mack's specialty, but it is lighter than most trucks in that category.

Industry-wide sales of the lighter 8's are about 20 percent of the Class 8 category and growing.

Julie Candler is an automotive writer based in Detroit.

The CM400 is a Baby 8, a term coined by Mack. The CM400's gross weight puts it in Class 8, which has been Mack's specialty, but it is lighter than most trucks in that category. Its Mack E-5 turbocharged diesel engine produces 240 horsepower.



The CM400 has a sloping fiberglass hood and a cab that Mack claims is the roomiest in its class. Its Mack E-5 turbocharged diesel engine produces 240 horsepower at 2,000 revolutions per minute.

Mack went after the intercity/short-haul-operations niche first with the CM400. Mack is producing on a rather low level of volume, says Curcio, "until such time as we get enough out there into the field to demonstrate to our customers. It's going to take a little time before we become a major factor in that segment.

"It's going exactly according to plan. We are proceeding carefully and slowly. We pick spots where we want to concentrate on putting product. The road tractor was first. But the vehicle's real strength will be in the next segment." Production begins in 1989 on a CM400 designed for use in construction and municipal applications.

Mack developed its new baby from a clean sheet of paper. Its engineers designed the vehicle with fewer parts for economies of production as well as maintenance. Parts now integrated into engines were add-ons on earlier Macks.

The Baby 8 was developed in partnership with Renault V.I. That cooperation, says Joseph P. Rossetti, Mack's executive vice president for marketing, involved "coming together in a cooperative way to learn from each other."

Because of the partnership, Mack believes it can come close to being the lowest-cost producer of medium and heavy-duty trucks in markets around the world.

The downshifting into a more economical operation has been going on since 1980, a year of decline in the nation's economy. Plants that were producing below capacity were closed. Both white- and blue-collar employees were cut from payrolls. Nonetheless, Mack could not compete against other truck makers' lower-cost plants. The firm was losing money, and its parent company, Signal Corporation of Los Angeles, announced that it was going to sell off Mack Trucks.

It was then that Curcio negotiated a deal whereby Renault V.I. became a 44 percent shareholder, and Mack again went public.

In cutting its operating costs while developing an entirely new line of products, Mack Trucks offers a lesson in how to succeed against tough competition.

Since then, Curcio has closed more plants and eliminated more jobs. The firm worked out a new contract with the United Auto Workers. It called for wage reductions and a 20 percent increase in productivity.

Those drastic actions reflected a key tenet of Curcio's management philosophy: "Face up to decisions as you go along, don't pass them on to people who follow you, because it gets to be a lot more difficult when all the problems have accumulated."

Curcio used funds raised from Mack's going public to invest millions more in cost-cutting efforts and new products. He allocated $100 million toward upgrading the efficiency of an engine-and-transmission plant in Hagerstown, Md.

Other efficiency moves that Mack points to include its sophisticated market research and establishment of a Product Advisory Council. The two combine to help Mack get closer to its users and provide features and capabilities that are designed exactly to their needs, the company says.

Mack's most audacious cost-cutting move was construction of an $80 million, nonunion plant that opened in Winnsboro, S.C., in 1987. Combined with a new, companywide computer system and additional subcontracting of parts, the new plant will provide extensive savings. The high-tech plant, Curcio said in greeting the press there last spring, is "the most efficient heavy-duty-truck plant in the world."

The visitors watched teams of technicians use modular assembly techniques to complete major sections of each truck before they were joined to the chassis at final assembly.

The workers were producing Mack's R model, the biggest-selling traditional truck since 1964. ("A 25-year run on a truck isn't too bad," Curcio laughs.) The press representatives saw conveyors move cabs through state-of-the-art paint and finish sections to be sprayed with a base coat and, after oven-baking, with a robotically applied protective clear coat.

(The visitors were escorted around the plant by a quality-control worker who can handle other jobs in the plant as well. A former accounts-payable clerk at another company, she, like other new employees, receives training to achieve a high degree of versatility. "We'll all be rotated so any person can fill in on any job," she said.)

"Face up to decisions as you go along," says John B. Curcio, chairman of Mack Trucks. "Don't pass them on to people who follow you."



While the highly complex plant had start-up problems, they have been worked out, and Winnsboro has taken its expected role in the Mack turnaround. Curcio sees that type of operation as essential in today's environment: "We need to introduce the new high technology that America is so capable of into the factories and into the products of mature industries and mature companies like Mack."

Next to roll off the lines will be the CH highway vehicle. Mack is investing $100 million and five years of development in the new truck, which will replace its R model. It will be powered by a new Mack E-7 engine, which will meet the more stringent emission requirements for heavy-truck diesel particulates, or soot. The E-7 will develop more power at lower operating speeds and will have more displacement with the same weight.

"We're now making preproduction CH prototypes," says Curcio. "We'll start regular production in December at our Winnsboro plant, and we'll introduce it to the trade press at that time. It will be a typical medium BBC [bumper to back of cab] conventional. A version with a long hood and large, high-horsepower engines will be available in mid-1989.

"In the latter part of that year, we'll introduce an aero version. We think it will be the most aerodynamic and fuel-efficient in the industry. Meanwhile, we're continuing to produce our Mack Super-Liner until the new truck is available."

Mack has the midrange market muzzled with its Mid-Liner MS200/MS250 and MS300 trucks from Renault. They are the best sellers among imported midrange trucks.

Whether they realize it or not, many business owners who use midrange trucks are now in the trucking business, says Curcio. He has advice for them: "The cost of delivering product—whether it's beer or furniture—is more important than they may realize to the overall cost of doing business and satisfying customers. If trucks break down and you can't deliver, you are going to lose a lot of customers, so it's becoming more important to have reliability than to attempt to cut costs at the purchase point."

Over the life cycle of a truck, says Curcio, the purchase price represents only about 15 percent of the total cost. Some of Mack's customers seem to be convinced he's right, Curcio says. "We are finding that we are getting a lot of customers back who have purchased other makes for lower initial prices but found the overall price of the truck was a lot higher."

Mack has put many of its major problems behind it but still faces challenges, particularly in the fight for market share.

Its famous symbol has a role at such times.

Curcio recalls that British soldiers first applied the term "bulldog" to Mack trucks in World War I "because of their tenacity and durability."

He adds: "We take a lot of pride in that symbol. It's been a rallying point when things were really tough." ■

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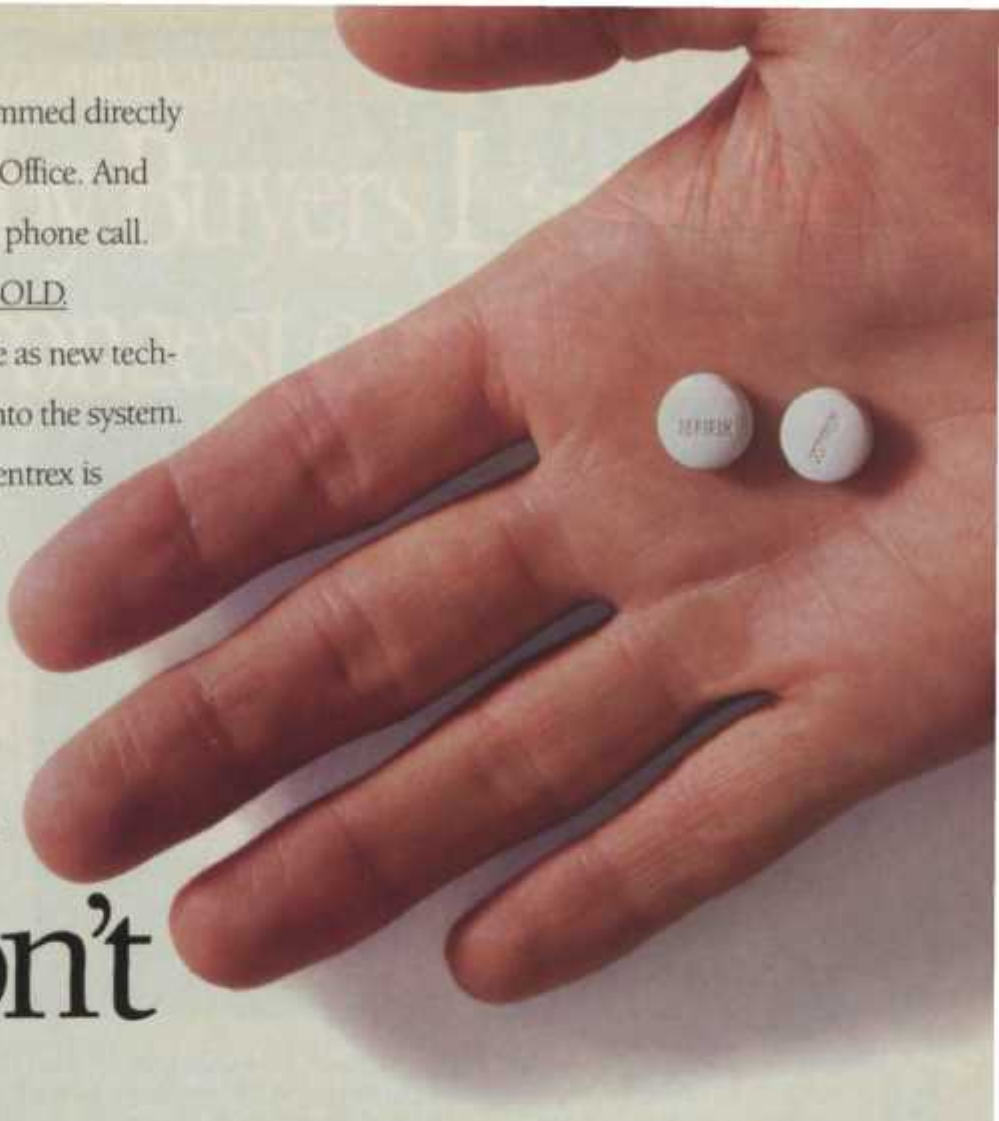
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Working For "Peanuts"

Charles M. Schulz—who says he's not a businessman—has combined small-business satisfaction with big-business success.

By Michael Barrier



PHOTO: JOSE AZEL—CONTACT PRESS IMAGES

He is no businessman, Charles M. Schulz insists: "I don't know anything about business, I really don't; it doesn't interest me. If I were to have to sell a product, I wouldn't even know how much to charge for it."

The creator of "Peanuts" has done some successful deals over the years, however. There was, for instance, the time he traded Snoopy for a load of gravel—"a good sale," he says.

We'll get back to that, but it makes sense to turn first to the strongest evidence of Schulz's business acumen: the thousands of products that bear the images of his comic strip's characters. Charlie Brown, Lucy, Linus, Snoopy and the rest appear on toys, greeting cards, lunch pails, music boxes, designer clothing, cookie jars, paper cups, refrigerator magnets—the list seems endless. The makers of those products pay a royalty, usually between 5 and 10 percent of the wholesale price. That money, like the fees paid by the newspapers that run "Peanuts," is split equally between Schulz and United Feature Syndicate, which distributes the comic strip to more than 2,100 newspapers worldwide. No one connected with Schulz or the syndicate will say how much money is involved, but informed estimates of the retail sales of "Peanuts" products run as high as $1 billion annually. Ronald A. Nelson, who handles money matters for Schulz, will concede this much: "This is obviously a big business."

It has grown so large almost entirely on the strength of its central product: Schulz's comic strip. Only rarely has someone representing Schulz or United Feature sought out a potential licensee and suggested putting Charlie Brown or Snoopy on a product; instead, the potential licensees have usually come to Schulz. The world—in the shape of more than 1,000 licensees—has beat a path to his door.

That door is at the end of Snoopy Lane, a short private street in Santa Rosa, Calif. Schulz works in a stone-and-wood building that he has compared, reasonably enough, to a suburban doctor's office. He draws "Peanuts" in the far corner of a split-level, paneled studio. Six other persons, all of whom address Schulz as "Sparky" (the nickname he has carried since he was 2 days old), work elsewhere in the building. They are the employees of Creative Associates, the company Schulz formed to oversee the licensing of his characters.

No one at Creative Associates assists him in drawing the comic strip; neither does anyone at United Feature. From the start, more than 38 years ago, "Peanuts" has always been drawn entirely by Charles Schulz.

Such a one-man operation is unusual in the world of comic strips, where almost all successful cartoonists employ assistants. Bill Melendez, whose animation studio has made all of the "Peanuts" television specials, recalls that when he asked Schulz why he didn't at least hire someone to letter the dialogue for him, Schulz replied: "Would Arnold Palmer get his caddy to come up and do his approach shots? No."

Even more remarkable, all of the drawings of Schulz's characters on the thousands of pieces of licensed merchandise are by Schulz, too. He makes some special drawings—like those for the current advertising campaign for the Metropolitan Life Insurance Company—but most licensees must use drawings reproduced from the comic strip.

Schulz has always shown a keen interest in the quality of the licensed products. "I think I was the first cartoonist who insisted that he see everything that was done," Schulz says. "I tried to watch over all the products and make sure that what we did was right. I tried to make all the drawings that would appear, even though my contract didn't necessarily allow for that supervision."

Schulz's principal motive in exercising such control has been to protect his comic strip from being tarnished by association with inferior goods. When he started "Peanuts," Schulz says, licensing "was the farthest thing from my mind." All he thought about "was just trying to draw the strip as well as I could, each day. I realized this is a business, and I knew it was possible to make a lot of money at it, but I just wanted to draw something that was really good and was different."

Says Ron Nelson, who is vice president of Creative Associates: "I believe he's convinced—and I think he's right—that the core of our continued success is really the daily comic strip. He truly does love to draw a good comic strip." And, Nelson adds, "it's very important to him that the products be an extension of the strip."

Schulz has achieved what many small-business owners long for: He has built what was originally a very small business—a comic strip appearing in a handful of newspapers—into a very

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Working For "Peanuts"

Even though "Peanuts" has become a worldwide business, Schulz still draws—and even letters—each day's comic strip entirely by himself, as he has for more than 38 years.



PHOTO: JOSE AZEL—CONTACT PRESS IMAGES

large business, without surrendering the satisfactions that led him into his line of work in the first place. "Peanuts" has remained a very personal, handmade product even as images of its characters have multiplied in dizzying numbers. The thousands of licensed products have not compromised the comic strip's integrity; instead, because of Schulz's rigorous supervision, they have shared in it.

Most cartoonists have found it much more difficult to balance the demands of art and commerce. The creators of other highly personal comic strips, from "Pogo" to "Doonesbury" to "Calvin and Hobbes," have approached licensing gingerly. But Schulz has never been afraid of licensing. Comic strips, he says, are not a "pure art form, by any means," but rather "a commercial product, and I've always said, 'How can a commercial product be accused of turning commercial?' "

Schulz, who was born in Minnesota in 1922, remembers feeling little interest in licensed comic-strip products when he was growing up in St. Paul. But he loved comic strips, and he knew from a very early age that he wanted to be a cartoonist. After serving in the Army in World War II, he bombarded magazines and syndicates with gag cartoons and comic strips while he worked as an art instructor for a correspondence school. United Feature finally bought "Peanuts," and the first strip was published on Oct. 2, 1950, in seven newspapers; Schulz was 27.

The licensing of "Peanuts" got under way quietly, with the publication of a paperback collection of reprinted strips in 1952. But then licensing began to snowball. There were new books every year (more than 100 "Peanuts" paperbacks have been published so far) and dolls and, starting in 1960, greeting cards by Hallmark. CBS broadcast the first "Peanuts" television special in 1965; it has been followed by more than three dozen others.

Schulz's contract—like most cartoonists' contracts with their syndicates—gave United Feature control of licensing. When potential licensees got in touch with Schulz, he referred them to the syndicate—which was, he says, "understanding" of his strong feelings about "Peanuts" and "never did anything behind my back."

In 1970, Schulz set up Creative Associates. His business affairs had become complicated, including by then the comic strip and its by-products plus an ice-skating arena in Santa Rosa.

Nelson, who has been with Creative Associates from the start, recalls that relations with United Feature began to sour in the 1970s: "They weren't required to clear anything, and they mostly didn't." There had been no problems earlier, he says, "because, one, it wasn't that big a business, and two, most of the licensees wanted to get some creative help from Sparky, so he had a very close relationship with the major licensees. As the business grew, and especially once it left the United States, it became harder for that relationship to be as close, and he had less time to spend with it. So [United Feature] just kind of took on more of it, and ran with the ball. In some cases it was fine, in some cases it was not fine."

Schulz recalls that he was "terribly unhappy" at this state of affairs. He told two successive presidents of United Feature: "I want something more. I don't know what it is, but I want something more." But, he says, "they just couldn't understand. When the third president, Bob Metz [Robert Roy Metz, president and chief executive officer of United Media, United Feature's parent company], came in, he understood it within 5 minutes. All I wanted was to control my property. I think the other people were afraid that I was going to run away with it, that if I got control of it I would go off and do all sorts of wild things. Well, it was just the opposite: I was afraid that was what they were going to do."

About 10 years ago, Schulz and United Feature agreed on a new contract, which left the 50-50 royalty split intact but gave Schulz veto power over every licensed product. Metz, who took charge at United Media a few months before the new contract was signed, says: "We had a terrific business, and as far as I was concerned, the thing to do was to make Sparky feel comfortable about the relationship. It's hard to be funny if you're sitting there feeling resentful about the way you're being treated."

He was never interested in a larger percentage of the strip's earnings, Schulz says—even though he is sure he could have gotten one. "There's plenty of money to go around for everybody," he says. "I just want to make sure that ["Peanuts"] is not killed off and that we do everything properly. This doesn't mean I've always made the right decisions, but I bet I've made more right decisions than they have."

As Nelson explains, United Feature must "defer to us when there's a critical difference on type of product and style of product. If we decide we don't want to do a product, or a business relationship isn't one we want, or something's not right, then it dies."

Not only must the products themselves pass muster at Creative Associates, so must the drawings that go on those products. A licensee must submit the drawings it is going to use to Evelyn Ellison, Creative Associates' assistant vice president, for her approval.

Has Snoopy's nose been left off the drawing that will be applied to a child's

Snoopy and his tiny bird friend, Woodstock, appear on more of the thousands of licensed products than any of the other "Peanuts" characters.



shirt? Back it goes, to be redone. Has a licensee traced a Schulz drawing, instead of reproducing it photographically? That is taboo.

"Peanuts" has been challenged recently as the comic-strip licensing king in the United States—another of United Feature's properties, "Garfield," has caught up—but "Peanuts" remains a powerhouse overseas. So far, there is nothing to indicate that "Peanuts," as a licensing phenomenon, cannot go on forever. But what about Schulz himself? How long can he go on? In the past, he talked like a man who wanted never to quit drawing his comic strip. Now, with some serious illnesses behind him, he speaks differently of the prospect of retirement. He had heart surgery in 1981 and knee surgery last year. He was three months ahead on the daily comic strip before his heart surgery; now he is less than two months ahead.

"I'm getting old," Schulz says. "I'll be 66 years old [this month]; I can't believe it. Oh, it's not that I want to [retire], I just wish there were some way of getting rid of all the other things and just drawing the comic strip. But I don't see how it could be done."

If Schulz retires, United Feature cannot hire another cartoonist to replace him; the contract forbids that. It is thinking instead about recycling old strips—which Schulz doubts will work.

Here we come to the irony in the great success of "Peanuts" in licensing. The strip became so popular, and the licensing so lucrative, because Schulz insisted on keeping the strip a very personal, one-man creation; but because it is such a personal product, it is difficult to imagine any other cartoonist continuing it successfully after Schulz is gone, even in the highly unlikely event that he or his heirs should agree to such a transition. And once the comic strip goes, licensing may fall off. It may not; Snoopy may have become an icon like Mickey Mouse. But no one can be sure.

But a voluntary retirement would be another matter. The word "obligation" turns up frequently in Schulz's conversation; he even speaks of an "obligation" to keep the ice arena open, despite the money it loses, because "I don't want to let down all the people that love skating." Likewise, he plainly feels an obligation to all the people—the Creative Associates staff, the United Feature staff, the licensees and, for that matter, his readers—who might be affected if he were to retire and leave "Peanuts" in reruns.

Schulz's hand shakes visibly now when he draws, and the spare, sure pen lines in the comic strip are no longer quite as steady as they used to be. "It slows me down," Schulz says, "and I have to letter very carefully." It may be that eventually his physical problem will provide Schulz with a graceful exit from the obligations he finds so worrisome.

Oh, yes, about Snoopy and that load of gravel. Schulz really did own a beagle named Snoopy once, not long after he moved to California in 1958. At the same time, he bought another beagle puppy, called Spike. "Within the next few days," Schulz recalls, "they began to scrap. As the days went on, the fights got more ferocious. So we thought, this can't carry on. A guy came by one day who was delivering shale to some driveway they were putting in, and he saw the dog. He said, 'Boy, I'd sure like to have that dog.' So we traded Snoopy for a load of shale. And he loved that dog; every time we'd see him he'd say, 'Boy, that Snoopy is a real dog. He and I really get along.' So it was a good sale." NB



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The Sunkyong group is headed toward becoming one of the world's largest industrial conglomerates as early as the year 2000, thanks in large part to its disciplined business plan, humanistic personnel policies and sophisticated management system.

Sunkyong already is the fifth-largest conglomerate in its homeland of Korea and the 90th-largest industrial company in the world, according to *Fortune* magazine.

Sunkyong is unique among Korea's industrial giants in its almost unwavering adherence to a strategy of devoting research and production resources to products derived from crude oil.

With the exception of a general trading firm, a construction and engineering company and a hotel venture, Sunkyong's businesses are involved in development, production, marketing and transportation of crude-oil products.

These products include petroleum; lubricants; petrochemical products; advanced synthetic fibers; and polyester films, video tapes, audio tapes, audio compact disks and floppy computer disks.

This vertical integration has enhanced Sunkyong's competitiveness in the global marketplace by, among things, fostering transfers of technology among product lines.

While Sunkyong's business practices clearly are sound, the group's success also is attributable to its personnel policies and its management system.

Chey Jong-hyun, chairman of Sunkyong, is known to place great value on human resources. Accordingly, he is widely recognized for contributions to the enrichment of businessmen and scholars not only in his company but also nationwide. For example, for nearly 15 years the company has sponsored, on one of Korea's two television stations, a program called "Scholarship Search." High-school students compete on the program for university scholarships.

Sunkyong also provides financial assistance to students and employees who wish to continue their education at leading universities in Korea and abroad.

Chey himself received a bachelor's degree from the University of Wisconsin and a master's degree from the University of Chicago.

Sunkyong sponsors men's and women's volleyball and basketball teams and has helped form a professional soccer team.

But Chey's pride and joy is his Sunkyong Management System (SKMS), a program designed to prepare the firm for the challenges of the next century.

Says Chey: "There are other good management systems, but one characteristic of the SKMS is that it has been systematized based on our sociopolitical and cultural background and shows which direction we should follow.

"Since it underlines the importance of the continued long life of the business through maximized profit and continued growth and stability, I am sure that Sunkyong will prosper long after I and my colleagues are gone."

Sponsoring U.S. Cyclists

Odd as it may seem, four U.S. cyclists were able to compete for Olympic medals in Seoul thanks to the Sunkyong group. The four cyclists—Michael McCarthy of New York; Ken Carpenter of La Mesa, Calif.; James Copeland of Cary, N.C.; and Robert Mionske of Twin Lakes, Wis.—are among the nine amateur cyclists on the Sunkyong-SKC Cycling Team.

Sunkyong formed the team a year ago, in connection with legendary cycling coach George Taylor, as a goodwill gesture to the United States, which is one of Korea's most important international trading partners.

The team also was formed to increase in the United States the visibility of the Olympics, which had become a symbol of Korea's new role as an economic power on the Pacific Rim. "On the occasion of the Olympics, we wanted to give a good impression of the country," says Kim Chang Ho, Sunkyong's executive managing director.

Formation of the Sunkyong-SKC Cycling Team is much more than a symbolic gesture, however. Sunkyong already has invested more than $500,000 in the effort to assure competitors of first-class travel, lodging, equipment, race support, coaching and medical and therapeutic care.

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Personal Management

To Your Health

By Norman Brown

Gesundheit!

From now through early spring, nearly 100 million colds will send temperatures rising, noses running and sufferers scrambling for relief. A surefire cure is still not available, but researchers are learning more, says Dr. Jack Gwaltney, professor of internal medicine at the University of Virginia Medical School.

Some examples:

- Cold symptoms are not caused by viruses alone, but also by kinins—substances produced by the body in response to viruses.
- Sniffles and sneezes may be the result of a bad day at the office, when stress or exhaustion has weakened the immune system.
- Receptor blockers, antibodies in nose-drop form, can prevent some rhinoviruses (which affect the upper respiratory tract and are responsible for 70 percent of winter colds) from invading cells.

Until a cure does come along, you should know that colds are more likely to be spread by hand contact than by coughs or sneezes, according to Gwaltney. He has conducted experiments showing that healthy volunteers caught few, if any, colds when exposed only to coughs and sneezes.

His advice: Spray disinfectant on objects (like telephones, copying machines and doorknobs) that you share with coworkers, and wash your hands frequently. Rubbing your nose or eyes after touching a virus-contaminated surface may give you a cold, too.

Although hands may be guilty of spreading viruses, cold weather is not. Neither are chilling drafts, getting your feet wet or kissing. Cold viruses don't thrive in the mouth. Neither are smokers more susceptible, though smoking can heighten symptoms and make a cold last longer. Alcohol may help you to endure, but it has no medicinal value (and may give you a headache).

Norman Brown, who lives in Providence, R.I., writes frequently on medical topics.



PHOTO: HARRY PRIDEAUX, JR.—MEDICHROME

Until medical science finds a cure for the cold, there are steps you can take to avoid catching one—or to ease the discomfort if you do come down with one.

"While a cold may cause fever, coughing or sore throat, the essential feature is a runny nose," says Dr. Larry Anderson, epidemiologist at the Centers for Disease Control in Atlanta. Research has identified more than 100 cold-causing rhinoviruses, in addition to the rarer coronaviruses (which are spread by air) and adenoviruses (which settle in the adenoids, tonsils and throat). The latter two cause perhaps 10 to 20 percent of all colds.

So, even though you may build up an immunity to one cold virus, you can be attacked shortly thereafter by one of the many others.

No one vaccine has yet been developed to fight all forms of colds, but you may be able to find temporary relief from most of the unpleasant symptoms.

Try a nonprescription antihistamine when you feel congested. If it makes you drowsy, try drinking hot tea or chicken soup to help loosen mucus in nasal passages. Nasal sprays can also offer fast (albeit temporary) relief, as can spicy foods and horseradish.

For a cough, try preparations that contain dextromethorphan, a prescription cough suppressant considered effective by the Food and Drug Administration. Generally, treating cold symptoms individually with syrups, tablets or drops is more effective than all-in-one remedies, says Gwaltney.

Fewer than 10 percent of what we call colds are mild flu infections, which usually strike in epidemics each autumn and winter, affecting mostly older adults and children.

Flu is more severe than a cold, and symptoms such as fever and headache seem to come at once. For a routine bout, drink lots of liquids and get lots of rest. A flu shot is *not* recommended, except for the elderly or anyone with cardiac or pulmonary problems.

The common "stomach flu" is not caused by a flu virus at all, but by intestinal bacteria. And viral sore throats typically get better on their own and do not respond to antibiotics, although an antibiotic may be prescribed if you develop a secondary infection such as bronchitis or laryngitis.

Symptoms that should send you to a doctor are earache, chest pain, dizziness, chills or high fever (above 102 degrees). And if you feel so rotten that your work is chronically affected, see a physician to check out the possibility of an allergy or a sinus infection. ■



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Home-equity loans offer prospective borrowers some appealing advantages over other forms of lending: lower interest rates and full tax deductibility. But there's a drawback: If you don't repay the loan, you may lose your house.

It's Your Money

By Paul N. Strassels



PHOTO: MAX HIRSCHFELD—FOLIO, INC.

Writing Checks On Your Home: A Good Idea Or Not?

The advertisements shout that if you must borrow money, a home-equity loan is a fine way to do it: "Homeowners, use your built-up equity as collateral to pay for the college education of your sons and daughters, finance business ventures and investments, cover medical emergencies and even go on lavish vacations. How you spend the proceeds of your home-equity loan is your business."

The ads are touting loans that are exactly as promised.

You can apply for a home-equity loan at any number of local financial institutions. Check the terms carefully, because they vary from one place to another. Some institutions even offer special, low-rate introductory terms.

Assuming you have a good credit history, local lenders should be eager for your business. Your home will be evaluated by a licensed real-estate appraiser, and your home-equity line of credit will then be established. You will have to pay for the appraisal and other loan-closing costs, which can run into hundreds of dollars.

Typically, the bank will extend to you a line of credit amounting to between 75 and 80 percent of the value of your home, less the amount of any outstanding mortgages.

For example, if your home is appraised for $240,000, and you still owe $110,000 on the mortgage, the bank should lend you up to $82,000. You can then draw the money as you need it by writing checks. You'll pay interest only on what you actually borrow. Most lenders set up a repayment schedule using a rate that is adjusted periodically to reflect current market rates.

Consumers love today's home-equity loans and lines of credit for two very good reasons.

First, these loans are typically offered at lower interest rates than other consumer loans, like those for cars and credit-card balances. Second, the interest is fully deductible no matter the purpose for which the loan proceeds are used, as long as the loan is for $100,000 or less. By contrast, only 40 percent of the personal and consumer interest you pay in 1988 is tax-deductible (and that will drop to 20 percent in 1989, 10 percent in 1990 and zero in 1991 and later years).

When you are faced with a choice between home-equity and consumer-loan interest, borrowing against your home is the sensible choice. Just make certain that you fully understand that the borrowed funds must be repaid according to the terms of the loan agreement. Even though you are borrowing against your home equity, the money is the bank's, and it must be paid back on time, plus interest. Otherwise, you stand to lose your home.

But if you need to borrow, and you are confident that you can meet the repayment schedule, a home-equity loan is one of the very best and most convenient ways to borrow money.

With bankers touting the wonderful tax and financial benefits of home-equity loans and lines of credit, it's not surprising that billions of dollars' worth of such loans have been written over the past two years.

Unfortunately, however, some problems have developed. Congress has heard testimony that some lenders have unilaterally amended and revised the terms of their loan contracts, forcing borrowers to pay higher interest costs. Other lenders, in some instances, have prematurely called their loans even though borrowers have complied faithfully with all loan conditions.

As a result of such practices on the part of only a handful of lenders, Congress may soon require bankers to disclose more fully all loan conditions and practices, and it may restrict them from revising loan terms after the contract is signed. In a time of rising interest rates, however, it is unlikely that a lender will call a loan, especially one with adjustable rates.

When A Pension Isn't A Pension

Individual retirement accounts have become passé, now that many people are precluded from deducting any contributions to such accounts because they are covered by company-sponsored retirement plans and earn too much money—adjusted gross income of $35,000 for individuals, $50,000 for married couples. Everyone not covered by a company plan can deduct IRA contributions (up to $2,000 a year), no matter how much they earn.

But what about a person who is covered by a company plan, but whose right to future retirement benefits is not yet fully vested? Sorry, says the Internal Revenue Service, the fact that he is covered by a company plan is enough to nix a worker's right to deduct contributions he makes to his IRA (assuming, of course, his earnings push him over the appropriate $35,000 or $50,000 limit). ■



Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

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For Your Tax File

Prepaying Tuition Gets Tougher

By Gerald W. Padwe, C.P.A.

Enactment of the "kiddie tax" and elimination of Clifford-trust tax benefits have made the task of saving for a child's college education more difficult. Various states or universities are trying to ease the burden by proposing plans that encourage early payment of projected college costs.

A few months ago, the IRS issued a private ruling on the tax effects of such a state plan (unidentified in the ruling, but widely recognized as Michigan's) in which parents make payments into a state-created trust. The state guarantees payment of four years' tuition at any public or private college in that state for the designated child.

Under the IRS ruling, payment to the trust by the parent is a gift to the child. The gift does not qualify for the $10,000 annual exclusion, though, since it is of a "future interest." Still, the present gift-tax lifetime exemption of $600,000 will cover such a gift for most.

As a gift recipient, the child will not be taxed on the amount paid to the trust. At the time the child attends college, however, he or she will pay income tax (presumably at lower rates than the parents) on the amount by which tuition costs exceed the amount paid by the parents to the trust.

The trust itself, says the IRS, will be subject to tax on the income it earns from investing the funds paid in by parents. And, since this tax cannot be passed on to the parents, it will instead reduce the amount of invested income available for future tuition.

In its favor, the plan does provide protection against rising college costs. A major problem, however, is economic: Parents are asked to prepay tuition in the years of a child's life when, traditionally, they are well below their peak earning power. Further, if the parents borrow to fund the tuition prepayment, interest on the loan will be personal interest—and such interest is only partially deductible now and will not be deductible at all after 1990.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

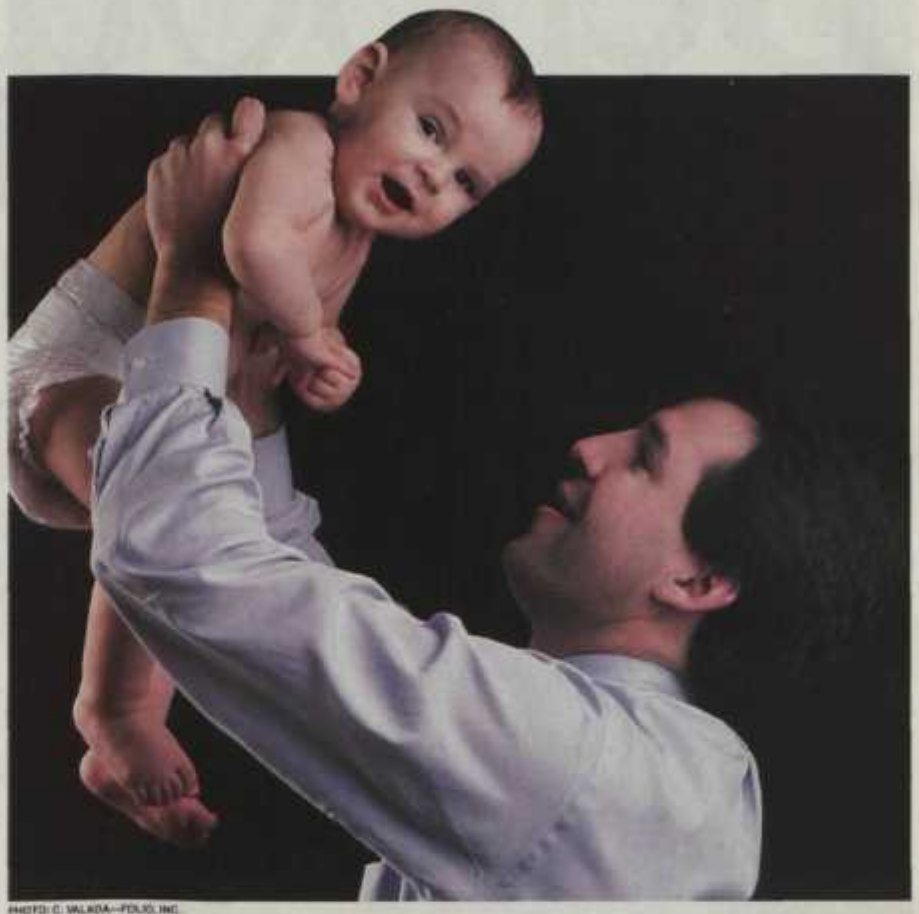


PHOTO: C. VALADA—FOLIO, INC.

This baby will be a college student before you know it—and who will pay the tuition costs? One thing for sure: A recent IRS ruling won't help.

The IRS Targets Directors' Keoghs

For many years it has been wise for an executive to have a Keogh retirement plan for fees earned as a corporate director. A directorship is, for tax purposes, a trade or business separate and distinct from an executive's status as a corporate employee, so deductible contributions can be made by transferring part of a director's fees to a qualified plan benefiting the director.

Apparently such a good deal was too much for the Internal Revenue Service to tolerate. Buried in proposed regulations on "leased employees" is a provision that would require that a Keogh plan maintained by an "inside" director be treated as a *company* plan.

Thus, if an employee-director were covered up to the maximum benefit under the regular company pension or profit-sharing plan, any contribution to the director's Keogh could disqualify the other plan. Similarly, if the one-employee Keogh were considered a company plan, it would not satisfy the requirement (effective in 1989) that a plan cover a minimum of either 50 employees or 40 percent of all the employer's employees.

This rule will take effect for plan years beginning more than 60 days after the date of the final regulations, but the IRS says that on the effective date, the rule will be retroactive to August, 1987, when the proposed regulations were published. If that were actually to happen, there would be no reason now to continue such a plan for an employee-director, since further contributions would only cause problems when the rules become final. NB

How you handle various matters—such as prepaying tuition, reimbursing expenses, or deducting travel costs for temporary jobs—can affect the amount that you will owe Uncle Sam.

The Real Value Of Expense Accounts

By Paul N. Strassels

The 1986 tax-reform law severely cut back the deductibility of employees' unreimbursed business expenses. Employees can deduct only 80 percent of what they spend on business-related meals and entertainment. The deduction for personal interest is limited to 40 percent of what is paid during 1988, and it will be phased out completely by 1991. Unreimbursed employee business expenses must be combined with other miscellaneous itemized deductions, the total of which is deductible only to the extent it exceeds 2 percent of adjusted gross income.

Because of these limitations, the savvy business will develop an employee compensation plan that provides for the total reimbursement of all reasonable expenses incurred by its workers in the course of their employment. This strategy should also include executives and owners of small, closely held firms.

From a tax standpoint, the employer's reimbursement offsets the employee's expense, so there is no tax effect for the employee. What's more, the employer qualifies for a full deduction for amounts spent in the course of business, since businesses (as opposed to individuals) are not subject to the 2 percent limitation on miscellaneous itemized deductions.

No Tax On Your Good Name

There is nothing more valuable than your good name, whether you are a six-figure executive, a mid-level manager or a clerk. Your reputation among colleagues, clients and competitors determines how well you do throughout your career. When someone challenges your good name, you must defend yourself. In a recent case, an executive sued for damages because of harm to his business reputation and was awarded $75,000. The IRS wanted to include the $75,000 in the executive's income, saying that damages for personal injury are tax-free but damages for harm to one's business reputation are taxable as business income.



PHOTO: HENLEY & SAVAGE—UNIPHOTO

Under the 1986 tax law, with its limits on the deductibility of employee business expenses, it is up to companies to keep their employees financially whole.

A federal appeals court disagreed, ruling that business and personal reputations must be treated the same; thus awards for injury to business reputations are tax-free.

Keep Records Businesslike

If your business has not been profitable for three out of the past five years, the IRS may term it "an activity not engaged in for profit" and thereby turn down your deduction for all business expenses that exceed your business income. The law presumes that if you have no profits for three of five years, you are engaged in a hobby rather than a money-making operation. Yet many taxpayers with unprofitable businesses have been granted their deductions. They simply showed that they maintained complete business records, conducted their activities in a businesslike manner and intended to make a profit.

Temporary Work

It's not unusual for an employee, through no fault of his own, to lose a job. A firm may close its doors, lose a contract or merge with another company. An ex-employee may accept temporary work out of town, hoping to land a suitable job closer to home in the future. The tax law provides a deduction for the cost of travel to and from the temporary job site, and for rent and meals while away from home.

In one case, a man spent $17,000. The IRS denied the deduction because the "temporary" job, which was to last three months, was extended to a year, making it a permanent position in the IRS's view. The Tax Court overruled the IRS, finding that the taxpayer was told the job was only temporary and that he continued looking for work in his hometown.

Reporting Income

Since the 1986 Tax Reform Act eliminated the long-term capital gains tax preference, you might think that the IRS would not care how you characterized your income as long as you reported and paid tax on it. Not so. In a recent case, a taxpayer listed income from an oil-field partnership as investment profit. The IRS objected, calling it self-employment income because she held close to a majority interest in the project. She had to pay self-employment taxes on her profits. NB

PEOPLE

Making It

These entrepreneurs discovered ways to turn a hunger, a hobby and a hunch into profitable business ventures.

"I Love To Feed People"

David Mintz says that every time TCBY, the most successful of the frozen-yogurt chains, opens a new shop in the New York metropolitan area, "I make it a point to go visit it."

Mintz is not a yogurt freak. His interest is professional. He is the founder and chairman of Tofutti Brands, Inc., a Rahway, N.J., company whose principal product, a nondairy frozen dessert, enjoyed a meteoric rise as a more healthful alternative to ice cream. The current success of frozen yogurt—another rival to ice cream—has echoes for him of Tofutti's own early days.

Tofutti, the dessert, takes its name from tofu, or soybean curd, which the company uses to give its product a texture like that of ice cream. Most forms of Tofutti are as high in calories as most ice creams—corn oil substitutes for the butterfat—but because Tofutti is nondairy, it is cholesterol-free.

Mintz, 56, developed Tofutti when he was a kosher caterer in Manhattan. Under Jewish dietary laws, dairy products and meat cannot be served at the same meal. Mintz is an Orthodox Jew, and he wanted to find a palatable dessert that he could serve without violating his own beliefs or those of many of his customers. In 1981, after nine years of experimenting, Tofutti was the result.

Mintz formed a corporation—then called Tofu Time—to manufacture and market Tofutti. Sales rose from $329,000 in fiscal 1983 to $17.1 million two years later.

Unlike TCBY, with its tight focus on selling yogurt through its franchised stores (see "Cold Product, Hot Company," September), Mintz's company spread itself thin. Tofutti was sold in soft-serve form through thousands of convenience stores and other retail outlets, but it was also sold to grocery stores in hard-frozen form, so that Tofutti competed with itself. Mintz also began to push into the franchising of "Tofutti Shops."

As Mintz says, "If you carry too much, you wind up dropping things."

Other tofu-based dessert products entered the market, and Tofutti suffered from the competition. Sales in fiscal 1986 dropped to $11.6 million. An agreement with the Häagen-Dazs unit of Pillsbury Company for national distribution to grocery stores turned sour that year, and Tofutti has had to build its own distribution network.



PHOTO: JAMES KELLY—GOT

David Mintz, founder and chairman of Tofutti Brands, shows off some of the culinary delights that have been developed in his company's test kitchen.

Soft-serve sales have been going down because, Mintz says, stores would rather sell packaged products: "You put it in the freezer, you sell it, boom—it's clean." Only one franchised Tofutti Shop ever opened, in New Jersey, and Tofutti Brands bought it from the franchisee a few months later.

Tofutti Brands was soon drowning in red ink. Last year, sales fell to $7.7 million, and the company lost more than $2 million.

This year, though, a turnaround is under way.

Tofutti has picked up new distributors, and, probably more important, Mintz is now giving the company the sharp focus it lacked before. He is concentrating on sales to supermarkets: "That's where the profits are, that's where the volume is." He has introduced new frozen desserts, including a low-calorie version of Tofutti and tiny "ice cream sandwiches" called Tofutti Cuties, and he has come up with other tofu-based products, too.

Mintz introduced some of his new products—tortellini, nondairy cheesecake and cream cheese, and an egg substitute called Egg Watchers—by serving them at a brunch for the press earlier this year. "I'll be in my glory,"



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"I Love To Feed People"

Carmine and Todd Mowbray started their company by printing business cards in a barn, and now they own and operate three Montana weekly newspapers and three free-circulation shoppers.

he said a few days before the brunch, "because this brings back my old catering days. I love to feed people." The new products went first into stores in Atlanta, New York, Seattle and Dallas, and the company plans to spread them across half the country by early 1989.

Success in supermarkets never comes easily, Mintz says, because competition for shelf space is so stiff, but "these products are the future of the company. True, it's a battle. But in the end, we will overcome."

So far, Tofutti is doing just that. Sales rose 11 percent in the first quarter, compared with the same quarter in 1987, and Tofutti Brands actually showed a small profit. In the second quarter, profit was, again, wafer-thin—but sales were up 17 percent over the previous year, to more than $2.8 million.

—Michael Barrier



PHOTO: WILLIAM R. SALLAZ

Flying High In Big-Sky Country

Printing linoleum-block Christmas cards to send to friends is a basic way to break into printing and publishing. So is cranking out business cards on a hand-fed, vintage platen press in the landlord's barn.

And those methods gave Todd and Carmine Mowbray of Polson and Deer Lodge, Mont., enough exposure to the business to let them decide that they liked it.

Today, Todd, 38, and Carmine, 35, own and operate three Montana weekly newspapers and three free-circulation shoppers. They have a 30 percent interest in a fourth shopper in Butte. Their Western Publishing Company production plant in Deer Lodge prints their publications and others from as far away as Great Falls and Missoula, Mont., approximately 140 miles and 80 miles, respectively, from Deer Lodge.

The Mowbrays, who grew up in Seattle, married in 1972 and moved to Deer Lodge the next year. Carmine had turned out linoleum-block Christmas cards as a hobby for years, and after the move to Montana, the Mowbrays purchased the platen press and went into business, printing business cards and other small jobs in the barn at night.

During the day, Todd ran his own logging operation and attended college part-time, and Carmine worked at a weekly newspaper in Deer Lodge and later as a bank bookkeeper.

By 1975, the Mowbrays' printing business had grown so large that a hard choice had to be made: hobby or full-time business? At that point the couple started a practice that they've followed ever since. Todd explains: "In making business judgments, we pose 'what-if' questions to each other. Nothing original about that, but they're essential. Each one seems to trigger a chain reaction. It's what makes business exciting."

They "what-if'd" their way into a full-time commercial printing business. Since then, they have "what-if'd" their way through three locations, three press combinations and various pieces of machinery. The fourth location—the present 4,500-square-foot building in Deer Lodge—houses a six-unit web press.

"We're always observing, asking questions and brain-picking," Todd says. For instance, a 1976 trip to Pella, Iowa, turned out to serve much more than the original purpose of acquiring a graphic-arts camera. "The man who sold us the camera published a shopper in Pella," Todd says. "He convinced us that Deer Lodge was not too small for one. His house, swimming pool and yearly trips to Hawaii were evidence that he knew what he was talking about."

Within a week, the tabloid *Western Shopper* was on the streets of Deer Lodge and Drummond, with an initial circulation of 2,850. In 1981, they bought the weekly shopper serving Polson and Ronan, 153 miles to the northwest, and then began buying weekly newspapers: the *Flathead Courier* of Polson and the *Ronan Pioneer* in 1983 and the *Mission Valley News* of St. Ignatius in 1987.

The Mowbrays combine aggressive editorials, extensive use of pictures (the *Courier* was the first Montana weekly newspaper to use full color regularly) and comprehensive community news coverage to produce prize-winning weekly newspapers.

Todd now concentrates on running the printing plant, and Carmine on overseeing the shopper at Deer Lodge. They have about 45 employees—one third full-time and the rest part-time. Says Carmine: "I've learned you can't do it all yourself. You must learn to train, coach and delegate. Then you're rewarded by seeing someone else derive satisfaction from completing a new task."

The Mowbrays own a six-passenger airplane and commute frequently between Polson and Deer Lodge; they have homes in both places. The plane permits them, Todd says, to "take off with our three kids once in a while for a quick change of scene, visit a museum or park, or simply take a weekend away to recharge our batteries and keep things in perspective."

Says Todd: "Publishing solely for profit is a very empty goal. Our goal is for our publications to help make a better community in which we and our readers live, and to provide stimulating, creative jobs for our employees."

—Paul Fugleberg

Legal Aid

Marilyn "Lyn" Hill was 26 years old and enjoying her work as a legal assistant, or "paralegal," for a small Manhattan law firm when she stumbled onto a business opportunity too good to pass up. She thought: Since lawyers often need extra assistance, why not offer a service, run by paralegals, that would provide reliable short-term help without all the hassle and expense of permanent employment?

That was three years ago. Today, Lyn Hill's paralegal temporary-employment agency, Legal Assistants Corporation, is a roaring success. This year, sales are expected to top $4 million, continuing the steady growth that began with $1 million in sales the first year and has increased by another $1 million every year since then.

Hill, who never thought of herself particularly as a businesswoman before she founded Legal Assistants, chuckles when describing her inauspicious entry into the entrepreneurial arena: "I had no idea what you do in the agency business; I was kind of winging it."

Nonetheless, Hill has shown solid business and marketing instincts. Her first step was to use newspaper ads, interviews and written tests to gather a pool of paralegals willing to accept temporary work. Next, she wrote, phoned and visited dozens of law firms to explain her proposed service. Six months passed before Hill landed her first placement—a big order for 20 temporaries. "It was wonderful," she remembers. But it was her follow-up that set her agency apart and gave it a permanent place in the Rolodexes of some of New York's leading law firms.

"When I got my first order, I thought it would be a good idea if the legal administrator who placed the order interviewed these people before she took them on," Hill explains. "I didn't know it, but none of the other services were doing that. She liked that idea and was really happy with the people we sent." Later, at a luncheon attended by legal administrators for many of the city's biggest firms, Hill's first customer unexpectedly rose to praise Hill's services, particularly the extra touches. "From then on," says Hill, "the business just kind of took off."

Among other extras that Hill's customers especially like: testing workers for common sense as well as legal knowledge before sending them out; providing detailed, computerized billing; and visiting the firms periodically to see how workers are getting along.

Legal Assistants, which began with Hill and a part-time secretary, currently has a staff of 15 and continues to expand. In addition to placing paralegals in temporary jobs, it now offers a permanent job-placement service for paralegals and conducts skill-enhancement seminars. Last fall, Hill opened a Washington branch and now spends much of her time traveling back and forth between the two cities.

As the business grows, Hill worries about spreading herself thin, she says. The Washington office "is taking off now," but opening it proved far more difficult than she imagined. "It's kind of hard," she admits, "to juggle everything and be everywhere."

Even so, there are lots of law firms out there, and Hill believes her company offers a service they need and want. "A lot of my philosophy is just quality and follow-up," she says.

—Donald C. Bacon



PHOTO: WENDY BARROWS

By following her instincts, Lyn Hill "winged" her way into a successful business placing temporary legal assistants in the offices of busy New York and Washington law firms.

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2. Mail Subscription	858,802	856,613
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E. Total Distribution (Sum of C and D)	905,775	907,057
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THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Require Same-Day Voter Registration?

Some members of Congress propose requiring states to implement same-day, on-site voter registration. Instant registration, they contend, would increase turnout dramatically. While encouraging citizens to vote is a noble goal, opponents say, same-day registration would be difficult and costly for localities and states to administer. And it could result in widespread ballot fraud, these opponents add, because identity and residency could not be verified by on-site officials. Should the federal government require on-site registration on election day?

2. Require Polls To Close At Same Time?

After polls close in the East and Midwest, partial results become available to Western voters before some have cast their ballots for President. As a result, Westerners could conclude their votes won't matter and decide not to vote, which could influence the outcomes of state and local elections also on the ballot. Some want Congress to preclude this by setting a uniform nationwide poll-closing time. Their opponents say there's no evidence Western voters are influenced by Eastern results, and they argue that states and localities should be allowed to continue setting closing times. Should Congress set a uniform poll-closing hour?

3. Bar Early Projections Of Election Winners?

Some also object to the television networks' practice of predicting the winners of presidential and congressional elections within a state while polls are open there. These critics charge that exit polling and key-district monitoring on which predictions are based are unscientific and could influence the outcomes of elections by deterring voters from going to the polls. The networks say that people who plan to vote will vote regardless of predictions. The networks also point out that it's their Constitutional right and professional obligation to report news as soon as it is made. Should televised election predictions be barred until polls close?

Verdicts On September Poll

Here is how readers responded to the questions in the September issue.

	Yes	No	Undecided
Should Congress approve Canada free-trade agreement?	85%	6%	9%
Should Congress enact diluted family-leave proposal?	25%	68%	7%
Should businesses be allowed to garnish wages of federal workers?	95%	3%	2%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

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Tapping Japan's Lucrative Market

American companies are spending and striving to get established in the rich Japanese marketplace, and the U.S. government is helping them do it.

By Steven Golob



PHOTO: HOKI BUCKNER

Selling in Japan is easy if your product is in demand there, says Martin Austin, who is in charge of exporting for E.N. Beard Hardwood Company, of Greensboro, N.C.

In Japan's better commercial areas, a $1,000 bill wouldn't buy the tiny bit of land it could cover. The costs of renting or buying space in these areas are mind-boggling.

Japan's age-old product-distribution system, which many Westerners see as honoring inefficiency, can make it cumbersome to do business there. And hoards of bureaucrats, often perceived as especially tough on foreigners, can make trade with Japan an exercise in patience.

Still, progressive small to midsized American companies with carefully conceived export strategies and with the tenacity to carry them out are investing substantial dollars and efforts now to establish a presence in the Japanese marketplace. Why?

"That's where the money is," says Maureen Smith, head of the Office of Japan at the U.S. Department of Commerce. Today's Japan, she says, is "like the United States right after World War II. Trade barriers are starting to come down, and the consumer is starting to spend like crazy."

And her office is there, Smith adds, to help you get those consumers to spend their money on U.S. products.

Smaller firms usually employ a trading company to help them penetrate the Japanese market. A trading company acts as a distributor—or it finds one—to guide products through the Japanese distribution system. Only nine trading companies handle most U.S. exports to Japan, and the Commerce Department can help immensely by telling you which of the nine is most familiar with your products. (Call Ed Leslie, desk officer in the Office of Japan, at 202-377-2425.)

If you decide not to use a trading company, however, Commerce can help you find a distributor directly. (See "How Commerce Helps You Export To Japan," on Page 86.)

E.N. Beard Hardwood Company, of Greensboro, N.C., is proving that a firm with less than $50 million in annual revenues can do without a distributor. Martin Austin, who is in charge of exporting, says the wholesale lumber firm got into exporting shortly after a Japanese sales representative, who was looking for a company to represent, approached E.N. Beard executives in 1979 at a Washington convention of the Appalachian Manufacturers Association.

Today, Beard exports to Japan up to 10 percent of the wood it buys from 300 U.S. sawmills. Soon, Austin says, it may export considerably more, thanks to the recent doubling of capacity at the yard where Beard dries, inspects and packs lumber for export on containerized ships.

In North Carolina, Austin employs a freight forwarder for his shipments to Japan, though E.N. Beard doesn't use all the services that freight forwarders typically can offer. Those services include packing for overseas shipment, figuring freight and handling charges, obtaining a pier address and delivery date, coordinating land transportation, preparing the transportation and customs documents and sending completed documents to the appropriate parties. (At the Commerce Department, Irvin Lloyd, at 202-377-0693, is the resident expert on freight forwarders serving various locations within the United States.)

Another West Coast company successfully tapping the Japanese market is Imitron Company of San Francisco. This maker of computerized axial tomographic (CAT) scanners for medical diagnosis through body imaging used a Japanese trading company, Mitsui & Company, to enter the Asian market. Douglas Boyd, Imitron's president, explains that he took his firm the trading-company route two years ago for several reasons:

- Imitron, founded in 1981, was

Tapping Japan's Lucrative Market

young, but Mitsui was willing to invest $2.5 million for a 5 percent stake in the venture.

- Imitron's leading competitors—General Electric, Siemens and Phillips—are big, but so is Mitsui, with $113.3 billion in sales last year.
- The highly regulated Japanese medical market is tough to penetrate, but Mitsui has experience.

Mitsui placed one of Imitron's CAT scanners on a test basis in a leading Osaka hospital that specializes in treating heart diseases. And Imitron expects to gain approval soon from the Japanese government's regulatory agency to start selling its $2 million machines throughout Japan.

Imitron, which now sells about 10 CAT scanners a year in the United States, believes it can sell 5 to 10 a year in Japan.

Maureen Smith, head of the Office of Japan at the U.S. Department of Commerce, says today's Japan is "like the United States right after World War II. Trade barriers are starting to come down, and the consumer is starting to spend like crazy." The purpose of her office, she adds, is to help you get those consumers to buy U.S. products.



PHOTO: JEFFREY LAWRENCE

For those who still despair of breaking into the Japanese market, despite the recent lowering of trade barriers, it should be pointed out that more than 50,000 U.S. products are being sold in Japan now.

Japan certainly is far from Westernized, but Coca-Cola is the soft drink of choice for 60 percent of the Japanese, Warner Lambert's Schick accounts for 71 percent of safety-razor sales, and McDonald's golden arches symbolize fast food throughout the country.

Vernon Alden, a successful businessman, prominent educator and, most recently, chairman of the Associated Japan-America Societies of the United States, writes in the *Harvard Business Review* that most of the success stories about U.S. companies doing business in Japan aren't being told.

Alden asks: "Why has this positive news gone unheard?

"For one thing, the most prosperous companies often keep quiet about their successes.

"After all, they don't want to spread the word about this lucrative market too widely for fear of attracting competition."

Well, the word is out now. NB

How Commerce Helps You Export To Japan

No organization is better able to find you an agent or distributor in Japan than the U.S. Department of Commerce. It's a federal agency that says, "We're here to help," and it really can.

The tips that follow can help you make sure that it really does.

If you think there is a market in Japan for your product, check your telephone directory for the nearest Commerce Department district office. There are 67 offices in 43 states.

To obtain the help that you want, you must give the Commerce Department:

- A completed Agent/Distributor Service application form.
- Copies of your product literature, specifications and an introductory letter from you to potential agents or distributors. Commerce uses these materials to find you a representative in Japan.
- A $90 application fee.

Commerce promises that if there is any potential for your product in Japan, it will come up with at least a half dozen interested—and qualified—agents or distributors, with brief comments on each, within 90 days.

Then, go to Japan.

Though you can continue the process of lining up a representative in Japan by mail or Telex, the best way to do business with the Japanese is face-to-face. And here is where the U.S. government really can help.

Commerce employs several of its own people and more than a dozen Japanese nationals in Japan. They will set up appointments for you with the Japanese agents or distributors interested in your product and with the Japanese officials who have authority over its distribution and sale.

On Commerce's staff in Japan is at least one person who has special knowledge in your product area. This specialist will advise you on what to ask before all of your appointments. Afterward, he or she will advise you on what the answers mean.

If you give your district office and the Commerce office in Japan enough time, they can set up all your meetings in Japan before you leave the States.

If everything doesn't work as it should, you can call the Office of Japan in Washington: Harry Stringer, trade-promotion officer, 202-377-4527, or Ed Leslie and Rebecca Lamberton, desk officers, 202-377-2425.

Call those experts only in the unlikely event that you get lost in the folds of the multilayered organization. The bureaucratic runaround is not standard operating procedure at Commerce. From Commerce Secretary C. William Verity, Jr., on down, everyone at Commerce has a stake in your success. If you have a product that will sell in Japan, their job is to help you succeed.

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

A Fair Freeze To Cut Deficits



PHOTO: JIM WESLAKE—UNIPHOTO

The federal budget deficit persists despite continuously rising federal revenues because the rate of growth in federal spending exceeds that of revenues.

The U.S. Chamber of Commerce believes the federal budget can be balanced by 1993—without cutting spending and without raising taxes—by enacting a "fair freeze" on federal spending to bring expenditures and revenues in line. The "fair-freeze" solution adjusts the growth rate of spending downward slightly to bring it into line with the growth rate of revenues.

The solution is based on the assumption that the economy will grow over the next five years at an average annual rate of 3.3 percent, which is the average yearly growth rate of the past 40 years.

The "fair-freeze" solution is made up of three components:

- Interest on the federal debt is allowed to increase at the rate estimated by the Congressional Budget Office (CBO). No assumption is made that interest rates will decrease in response to falling deficits.
- Social Security benefits are allowed to increase at the rate the CBO estimates is necessary to provide benefits called for under current law. Social Security benefits are not touched.
- Remaining federal spending is permitted to increase at the CBO's estimated rate of inflation. No spending cuts are required.

Urge your senators and representatives to reduce the deficit by enacting a "fair freeze" on the growth of government spending rather than by raising taxes.

Health-Risk Notification



PHOTO: JIM BROWN—THE STOCK MARKET

The 101st Congress soon will be gearing up for another battle over the High Risk Occupational Disease Notification and Prevention Act, introduced in 1987.

The primary goal of the legislation is to prevent occupational diseases by alerting employees of the possible health risks from their exposure to workplace hazards so that they can seek medical attention.

While occupational diseases do occur, they are addressed comprehensively and effectively through the Occupational Safety and Health Administration's Hazard Communication Standard imposed in 1986. The standard covers all businesses and is the most extensive and expensive OSHA standard ever. It affects 3.5 million employers and 32.4 million workers. It cost employers about $1.3 billion in the first year and is expected to cost $260 million per year thereafter. In addition, more than 35 state and local "right-to-know" laws have been enacted. Nonetheless, federal legislation addressing the same issue of worker notification of occupational hazards will be considered again.

Urge your senators and representatives to oppose legislation that would duplicate OSHA's extensive hazard-notification requirements.

Privatization Initiatives



PHOTO: JOHN DESALVO—MCDONALD'S

One way to reduce the current federal deficit is to increase the efficiency of government expenditures by relying more on the private sector for needed goods and services, and by selling federal assets.

The federal government produces many commercially available goods and services, which is usually costlier than buying them in the competitive private sector through the practice known as "contracting out."

Selling federal assets provides the government with new sources of revenue. The Privatization Task Force estimated in its recent report that the government could earn $307 billion from the sale of federal assets such as commodity bonds, obsolete military bases and airports.

Privatization is an effective method for improving our economy, in view of budget constraints, efforts to reduce the federal work force and the need to provide essential government services efficiently and cost-effectively.

Contact your senators and representatives to urge them to support privatization initiatives such as "contracting out" and asset sales.

COMMENTARY

Editorials

The U.S. Chamber was the major voice for business in achieving a critical victory for both employers and employees.

Entry-Level Workers Are Winners In The Defeat Of A Higher Minimum Wage

"Hundreds of thousands of jobs were saved today . . ."

That statement is the bottom line of the Senate's rejection of legislation to increase the minimum wage by nearly 40 percent over the next three years. (See article on Page 45.) The analysis comes from Robert L. Martin, director of the Employee Relations Policy Center of the U.S. Chamber of Commerce, which spearheaded the business campaign against the increase.

Martin points out that the Senate vote "reflects a growing understanding by congressional leaders that increased mandated costs ultimately will hurt, not help, the working poor."

The U.S. Chamber was the major voice for business in achieving what was a critical victory not only for employers but also for employees. The business federation's successful strategy was based on studies demonstrating that the direct result of an increase in the minimum wage is fewer jobs, not more pay.

Employers would be forced to abolish existing jobs and defer creation of new ones in the face of government-mandated pay scales they were unable to meet. The squeeze on employers would be intensified by the need to raise those wages that are already above the minimum to maintain existing ratios among workers with various levels of skill and experience. Advocates of a higher minimum are reluctant to recognize this "ripple effect." They base their case on the argument that those at the lower end of the wage scale need relief, but, because of the ripple effect, they are actually proposing a change that would require pay increases far beyond the wage levels that are the subject of their concern.

But the most far-reaching impact of an increase in the government-set wage would be a sharp contraction in the number of entry-level jobs in which millions of Americans, particularly young people, receive the training that helps qualify them for the better jobs that give them the skills they need for still better jobs. While advocates of a higher minimum wage attempted to portray their legislation as a boon to the "working poor," the U.S. Chamber provided solid documentation that those workers would be the victims, not the beneficiaries, of mandated wage levels that employers could not meet.



PHOTO: JEFFREY LAWRENCE

Sign of victory: The defeat of minimum-wage legislation means entry-level job opportunities will still be available.

That documentation redefined the terms of the minimum-wage debate. Opponents of the increase were able to show that the issue was not simply higher pay vs. lower pay but one of job opportunities at the existing pay level vs. elimination of jobs at a higher level.

Sen. Edward M. Kennedy (D-Mass.), chairman of the Senate Labor Committee and leader of the forces behind the higher wage, gave unintended testimony to the success of the Chamber's efforts when he complained in the debate of the "grip" that the business federation had on the legislative process.

That type of complaint from Kennedy represents high praise for an organization fighting aggressively to represent the best interests of its members—and of the entire business community.

An "Election Victory" For The AFL-CIO Would Be A Loss For The Rest Of Us

"We need to make the phone calls, walk the shop floor, work the plant gate, canvass the precinct and do all the hard work that spells election victory."

That call to political arms for the 1988 elections comes from Lane Kirkland, president of the AFL-CIO, and is addressed to members of his organization. For them, the goal is the election of candidates committed to organized labor's legislative wish list.

Business people should be alert to this political initiative. A "political victory" for the AFL-CIO would be a massive setback for those concerned about the health of the enterprise system.

Speaking from the business perspective, U.S. Chamber of Commerce Chairman William S. Kanaga says:

"In the final analysis, the issue before the American people is simple: Should we continue with the policies of reliance on the free market that have brought the longest sustained period of economic growth in our history? Or shall we return to the failed big-government policies of the 1970s?"

Business people will have no trouble answering that question. But to make that answer mean something, they must get out and vote.

Otherwise, they risk the danger of a national political agenda set by the AFL-CIO. NB



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